NATIONAL
BANK
OF CANADA

2003 Annual Report

THIS IS YOUR BANK

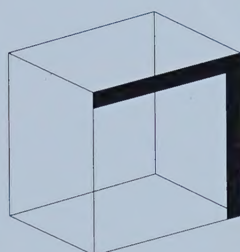
HIGHLIGHTS

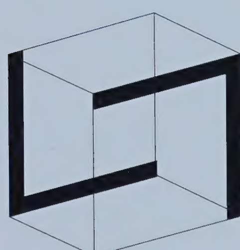
	2003	2002	Percentage change 2003/2002
OPERATING RESULTS (1)			
(millions of dollars)			
Total revenues	3,362	3,028	11
Total revenues (taxable equivalent basis(2))	3,459	3,114	11
Net income	624	429	45
Return on common shareholders' equity	16.5 %	11.3 %	
PER COMMON SHARE (1)			
Net income			
Basic	$ 3.37	$ 2.18	55
Diluted	3.34	2.18	53
Dividends declared	1.08	0.93	16
Book value	21.32	19.72	8
Stock trading range			
High	$ 41.19	$ 34.93	
Low	29.95	24.70	
Close	40.91	29.39	
FINANCIAL POSITION (1)			
(millions of dollars)			
Total assets	82,423	74,593	10
Loans and acceptances	45,670	43,800	4
Deposits	51,463	51,690	–
Subordinated debentures and shareholders' equity	5,613	5,493	2
Capital ratios – BIS			
Tier 1	9.6 %	9.6 %	
Total	13.4 %	13.6 %	
Interest coverage	10.22	7.39	
Asset coverage	3.19	3.02	
OTHER INFORMATION			
Number of common shares at end of year *(thousands)*	174,620	182,596	
Number of common shareholders of record	27,865	28,549	
Number of employees	16,935	17,285	(2)
Number of branches in Canada	477	507	(6)
Number of banking machines	817	826	(1)

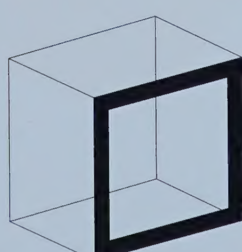
(1) *The impact of the adjustment to the general allowance for credit risk is explained in Note 28 to the consolidated financial statements on page 119*

(2) *See definition in Glossary, page 78*

YOUR BANK
STANDS OUT FOR...

...its  **performance**

...its  **diversification**

...its  **discipline**

Our objectives... our results

Objective: 5% to 10%

Growth in earnings per share(1) **21%**

Objective: 14% to 16%

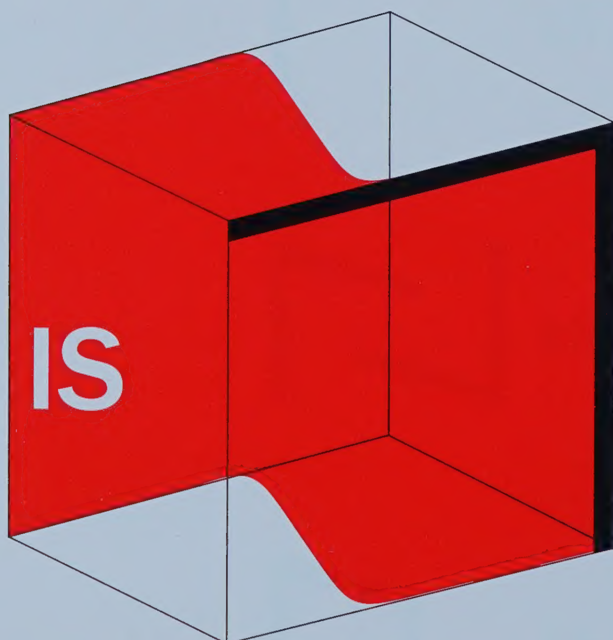
Return on common shareholders' equity **16.5%**

Objective: 8.75% to 9.50%

Tier 1 capital ratio **9.6%**

Objective: 30% to 40%

Dividend payout ratio **32%**



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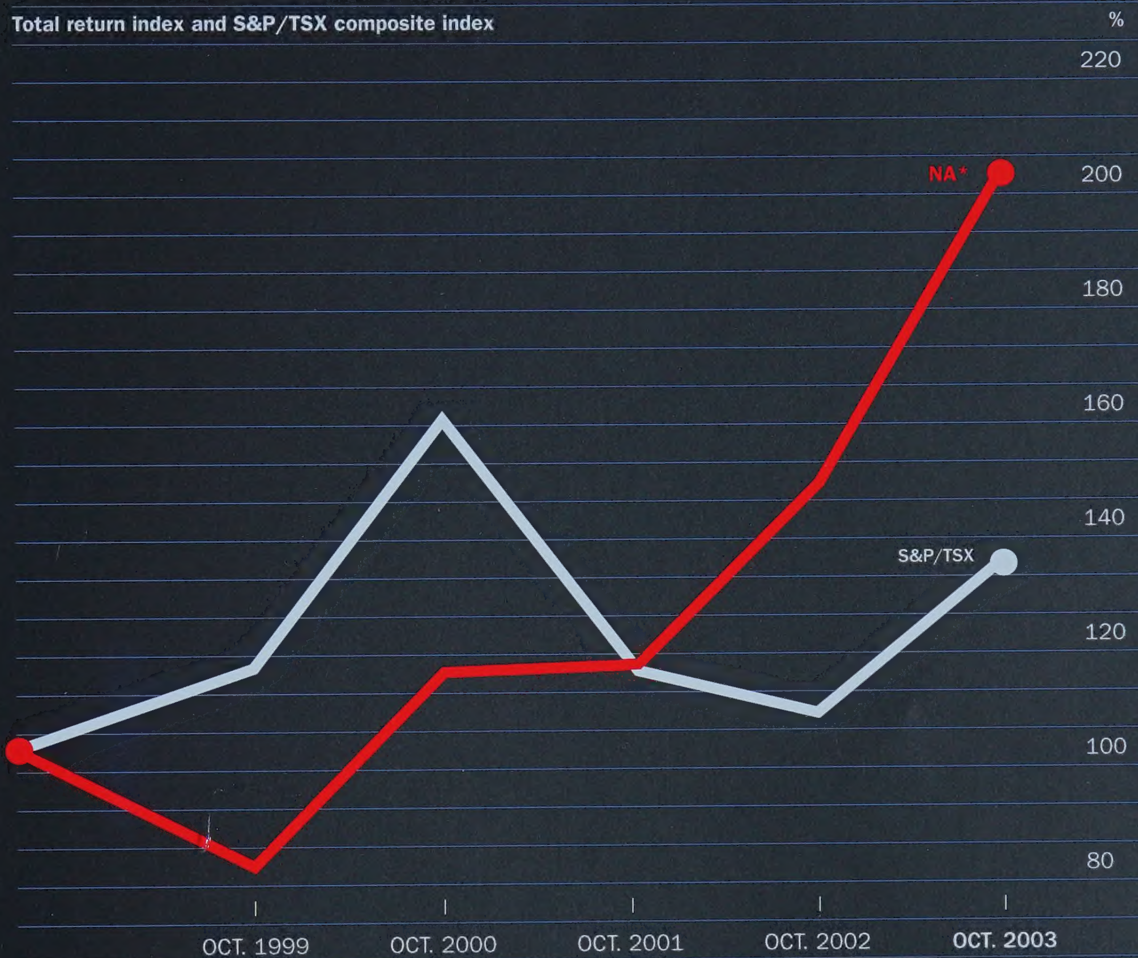
(1) *Excluding the impairment charge taken on an investment in 2002*

Total return index and S&P/TSX composite index



PERFORMANCE

NA*

1 YEAR	+ 43%
5 YEARS	+ 108%

* *Stock ticker symbol for common shares of National Bank of Canada*

THIS IS ...

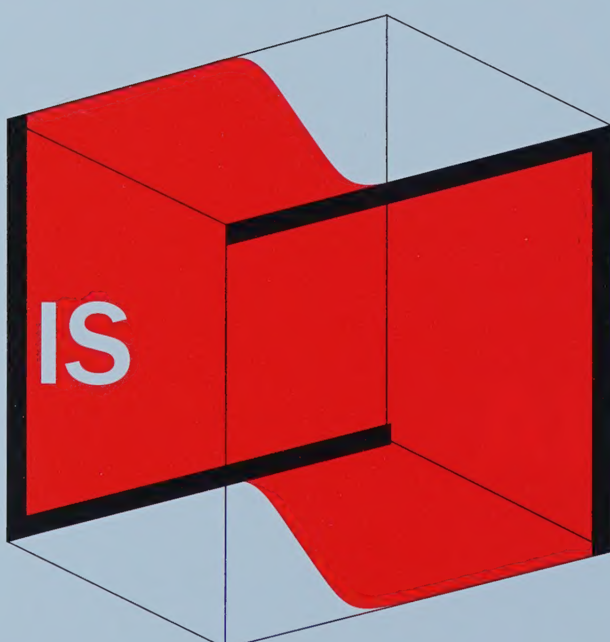
... OUR CLIENTELE

... OUR SCOPE OF OPERATIONS

... OUR PRODUCTS AND SERVICES

... OUR DISTRIBUTION CHANNELS

... OUR NICHES OUTSIDE QUEBEC



OUR CLIENTELE

2,550,000 individuals
156,000 businesses
Corporations
Institutions: a key player
Quebec government: lead partner

OUR SCOPE OF OPERATIONS

Active in all authorized sectors of operation
A full suite of integrated financial services
Rapid response to business opportunities

OUR PRODUCTS AND SERVICES

Adapted to the specific needs of our varied client groups
Innovative products brought to market quickly
In step with our clients' changing needs

OUR DISTRIBUTION CHANNELS

Traditional: branches, full-service brokers and commercial account managers
Remote: Internet, call centres, discount brokerage
Intermediaries: mortgage brokers and deposit agents
Partners: mutual fund firms, brokers, financial advisors, life insurers

OUR NICHES OUTSIDE QUEBEC

National Bank Financial: a leading national broker
Energy division in Western Canada
Altamira for wealth management

diver
sifica
tion

... A TAILORED BUSINESS MODEL

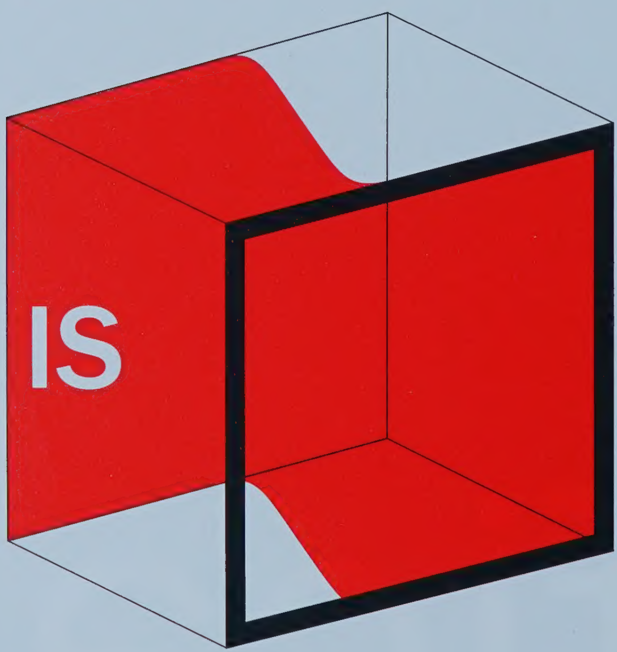
... ACTIVE MANAGEMENT OF OPERATIONS

... SOUND CREDIT QUALITY

... HUMAN RESOURCES GEARED TO EXCELLENCE

... PRODUCTIVITY ON A PAR WITH INDUSTRY STANDARDS

THIS IS



...

A TAILORED BUSINESS MODEL

Executed with discipline

A framework for our actions

ACTIVE MANAGEMENT OF OPERATIONS

Emphasis on high value-added activities

Management team focussed on core business

Acquisitions successfully integrated

SOUND CREDIT QUALITY

Stringent credit approval process

Capable team of experienced people

Portfolio closely tracked and actively managed

HUMAN RESOURCES GEARED TO EXCELLENCE

Rigorous hiring process

Training encouraged at all levels

Performance-linked compensation and promotion

Program to retain young talent

PRODUCTIVITY ON A PAR WITH INDUSTRY STANDARDS

Horizontal organizational structure

Efficiency-driven culture

Targetted technological investment

Outsourcing to reduce costs and achieve best practices

...discipline

Our commitment to you

THIS IS ...

... COURTEOUS, PERSONALIZED, RELIABLE AND PROMPT SERVICE

... SOUND, PROFESSIONAL ADVICE ADAPTED TO YOUR NEEDS

... OUR ASSURANCE OF SECURE AND CONFIDENTIAL TRANSACTIONS

... CONVENIENT ACCESSIBILITY THROUGH OUR BRANCHES, REMOTE SERVICES AND SPECIALIZED SALES FORCE

... INNOVATIVE PRODUCTS AT COMPETITIVE PRICES

... AN INSTITUTION AND PEOPLE YOU CAN TRUST

Mr André Bérard in the Board Room of the Bank

Dear Shareholders,

First of all, I would like to convey to you how pleased the Board is with the Bank's 2003 results. The Members of the Board of Directors, more than anyone else, witnessed first hand the tremendous work accomplished to strengthen all facets of National Bank's operations. Our shareholders were also rewarded, with a high return on their investment—a remarkable feat given that stock markets have seen more downs than ups these past years. This speaks volumes about the Bank's Management and all its employees, and I would like to congratulate them and to thank them on behalf of all the Directors and shareholders.

During the year, we also felt the impact of the changes made by the Bank in terms of corporate governance. Our three committees *(Conduct Review and Corporate Governance, Human Resources, Audit and Risk Management)* are not only chaired by independent Directors, they are also composed of independent members (13 out of 14 Directors) to ensure greater transparency. These committees all effectively assumed the responsibilities expected of them. More particularly, they maintained an open and candid relationship with Management in formulating orientations, monitoring operations and risks, and overseeing the Bank's performance. I would like to thank all the Directors for their contribution, especially the three committee chairs who played a key role in the Board's work. The Board is now even better positioned to assume its fiduciary responsibility on behalf of all shareholders.

The Bank respects the statutory and regulatory requirements that govern it, as well as the guidelines issued by the various authorities. The financial scandals in the United States have sparked the quick reshaping of the regulatory environment. The *Sarbanes-Oxley Act* already sets out stringent corporate financial reporting requirements in the United States, and our provincial governments are now drafting a similar legislative framework. The Bank has taken a proactive approach in order to comply with the corporate governance reforms slated for Canada. One way was to create a Disclosure Committee in 2003 to monitor the application of the Bank's corporate governance policy. A comprehensive certification process was then set up to ensure systematic and effective financial reporting. In all, some 60 officers of the Bank and its subsidiaries are required to certify the conformity of the material financial information disclosed by the Bank for the activities under their responsibility. The procedures put in place are aimed at bolstering the confidence of the Directors and shareholders of the Bank in the new corporate governance context.

The Board is also looking at the future of the Bank as a financial institution. The banking system is at a crossroads. Canada could very likely soon see mergers involving the banks, either with each other or with other major industry players.

The *Bank Act* amended in 2001 sets forth the guidelines that are to govern the merger review process. The work undertaken by Parliament in 2003 enabled the Government, on June 23, 2003, to set out public interest considerations in its *Response of the Government to Commons and Senate Committee Reports on Bank Mergers and the Public Interest*. At the time, the Government of Canada committed to releasing revised policies and guidelines by June 30, 2004. In preparation, the Government received proposals from the industry on a series of issues. These included the criteria to be used by the Competition Bureau, the process applicable in the event of a merger between a large bank and an insurance company, the acceptable number of mergers, and the window of time in which to assess multiple merger proposals. Depending on the timetable adopted, the Government could accept, as early as September 2004, merger applications that respect the new framework. However, this could all change given the shift in the political landscape in Ottawa and the possibility of a general election being called in the interim.

Regardless of the outcome, National Bank needs to be ready for any eventuality, and therefore actively participated in the discussions. Réal Raymond, President and Chief Executive Officer, presented the Bank's views to the House of Commons Standing Committee on Finance and to the Standing Senate Committee on Banking, Trade and Commerce. He was especially effective in his representations, as evidenced by the inclusion of these views in both committee reports and in the Government's response. The Bank believes that mergers are a legitimate business option, one that should be available to those industry participants who choose to go down that path, provided that a healthy level of competition is maintained. And, if this condition is met, no initial limit need be placed on the acceptable number or type of mergers. The banking industry wants only to be treated in the same way as the life insurance industry, where consolidation was achieved by allowing market forces to prevail while safeguarding the interests of consumers.

The Board of Directors has an obligation to ensure that National Bank weighs every possible option in the imminent sweeping restructuring. As the Government's proposed schedule could result in a very narrow window of opportunity, this is all the more reason for National Bank to remain an active participant in the process.

The Board also has an obligation to ensure National Bank maintains its core market in Quebec, which represents a large part of its inherent value. This core market is unique in the banking industry in Canada, indicative of the Bank's ability to meet Quebec's specific needs through its skilled team of managers, who have an exceptional understanding of the market. We believe that a restructured industry could offer opportunities to strengthen our core market or grow our operations outside Quebec following the divestitures required under competition legislation.

National Bank is also unique in that it benefits from a different regulatory treatment. Despite its respectable size, which enables it to offer all of its financial services profitably, its status differs from that of the large banks. It is vital that the legislators continue to acknowledge the Bank's special status in order to ensure it has all the flexibility needed to plot its future.

These will be the key issues facing the Bank's Management and Board of Directors in the coming months. They are critical not only for shareholders, but for all the Bank's stakeholders—our clients, our employees and the communities we serve. We are well aware that National Bank will emerge a stronger institution if the decisions it makes benefit each and every one of its stakeholders.

I WILL BE STEPPING DOWN FROM NATIONAL BANK'S BOARD IN MARCH. I WILL BE LEAVING AN ORGANIZATION WITH WHICH I HAVE BEEN ASSOCIATED FOR 44 WONDERFUL YEARS IN EXCELLENT FINANCIAL HEALTH, SATISFIED WITH EVERYTHING WE HAVE ACHIEVED. I WOULD LIKE TO THANK MOST SINCERELY ALL THOSE WHO ACCOMPANIED ME AND SUPPORTED ME DURING MY LONG CAREER, ESPECIALLY THE MEMBERS OF THE BOARD IN WHOSE COMPANY I HAD THE PLEASURE OF WORKING THESE LAST YEARS. FINALLY, LIKE SO MANY OF THOSE WHO HAVE COME BEFORE ME IN THE BANK'S 145-YEAR HISTORY, I WOULD LIKE TO PAY TRIBUTE TO THIS INSTITUTION, WHICH GAVE ME A UNIQUE OPPORTUNITY TO ACCOMPLISH SO MUCH, BOTH PERSONALLY AND PROFESSIONALLY.

André Bérard

Dear Shareholders,

In my message last year, I summed up 2002 as a "year of positioning". In 2003, we reaped the rewards of this positioning. Our strategic initiative to be a super-regional bank dominant in the banking market in Quebec, while being highly selective in choosing our activities outside our natural market, has proven to be a great fit. Our results are proof of the determination, diligence and discipline with which we pursued our strategies. For example, our lead market position in personal banking in Quebec enabled us to maintain, and even ramp up, product profitability, while that of the other banks suffered at the hands of cut-throat competition in the Ontario market. As for the SME market, 2003 marked a return to growth.

We also made huge strides in rolling out our wealth management strategy. The Wealth Management business line, which is deployed in our branch network for our high net worth clients, is living up to our expectations in terms of growing the financial assets entrusted to National Bank, savings retention and loan renewal. In addition, assets under management rose at National Bank Financial and at National Bank Securities, whose mutual funds stood out from bank fund families for their delivery of growth and returns.

Our acquisition of Altamira, our other mutual fund distributor, contributed to the Bank's earnings, as projected, despite the very difficult market context during its first 12 months of operations. Cost synergies were achieved more rapidly, offsetting lower-than-anticipated revenue. Altamira is a key part of our plan to participate fully in the wealth management market in Canada, primarily through our branches west of Quebec.

Lastly, our capital market operations proved resilient in 2003, in the wake of last year's exceptional performance. A record year in fixed-income securities partly made up for the downturn in corporate financing. Treasury, for its part, again proved that it could turn in consistently solid profits by virtue of its multiple revenue sources.

However, making the acquisition of Putnam Lovell cost-effective proved to be a major challenge, given the weak demand for merger and acquisition advisory services in the financial industry. Aggressive steps were taken, including shedding low-potential deficit operations, which, combined with a renewed wave of consolidation in the industry, especially in North America, are expected to make these operations considerably more profitable in 2004.

These significant and across-the-board developments were instrumental in making the Bank's financial results for the year ended October 31, 2003 the best in its history. We exceeded our financial objectives, and, as a result, earnings per share were $3.37, up 21% from $2.79 in 2002 (excluding the write-down of an investment), compared to projected growth of between 5% and 10%. Return on common shareholders' equity was 16.5%, above the target range of 14% – 16%.

Our strong earnings performance meant that we were able to return more capital to our shareholders, notably by completing the repurchase of 9.1 million common shares during the 2003 fiscal year, while maintaining the Bank's capital base. At year-end, the Tier 1 capital ratio was 9.6%, exceeding our objective of 8.75% – 9.50%.

Given the positive earnings trend of recent years, due to rigorous management of our business portfolio, an improved balance sheet and overall risk management, Management is confident that it can meet the increased market demand for a current return on investments and, on December 4, 2003, raised the Bank's target dividend payout range to 35% – 45% of earnings per common share.

The markets responded to the appropriateness of our strategy and our strong results. Our shareholders too reaped the benefits, with a total return of 43%, reflecting the 39% rise in share price and two increases in the quarterly dividend, from 24¢ to 28¢. The 5¢ increase announced on December 4 raised the dividend by 38% in 15 months.

We achieved these results despite an economic and financial environment that included vulnerable sectors. On the upside, low interest rates lifted stock and bond markets, impacting favourably on the income generated by capital markets and on wealth management operations in the latter half of 2003. On the downside, economic growth was considerably weaker in 2003 than in 2002, pushing up the jobless rate in Canada. However, interest rates were sufficiently low to sustain consumer spending and housing investment, shoring up personal loan growth without overtaxing consumers' ability to service this debt.

The quality of the loan portfolio was maintained during the year, as reflected in the provision for credit losses, which totalled $177 million, down 42% from the $305 million provision taken for current activities in 2002.

I attribute National Bank's good performance to the profitable business portfolio it has built up which covers the essential elements of the Canadian financial industry. Over the years, National Bank has become a diversified, efficient and high-performing financial institution led by individuals who are as competent as they are committed to the success of the organization.

The spin-offs of this diversification are evident not only among the major business units, but also within each of our markets. I believe this is a winning combination, one that offsets the weaker performance of certain markets—something we have experienced since the spring of 2000.

We are also guided by a sense of teamwork, always striving to satisfy our clients. This focus enabled the Bank to distinguish itself in 2003 with the introduction of structured investment products that provided attractive options in an unstable market environment. The Blue Chip GIC, Strategic Portfolios, which include diversified mutual funds that are rebalanced periodically to reflect market conditions, and Active Management GICs are just a few examples.

Getting many of these products to market called for a concerted effort by National Bank Financial, Treasury and the Personal Banking and Wealth Management product groups to ensure that the needs of all our clients were met regardless of the distribution channels. Generating an absolute return is another feature of several of our new products. Most of our clients have limited tolerance to risk and are looking for sustained capital appreciation. Meeting this need compels us to be creative and encourages our top resources to excel.

Product development is just one facet of our efforts to enhance customer satisfaction, a key component of our corporate strategy. Extending branch business hours for transactional services, increasing functionalities using e-service delivery methods such as the Internet, targetting measures to eliminate the most obvious irritants, and a commitment by everyone to offer the best customer experience across the network are all built into our action plan. This year again results are excellent, with the level of satisfaction among our individual and business clients up markedly.

The Bank's success can be reflected in the morale of its employees. Internal surveys show that more than ever our employees have a greater sense of engagement and pride in working in our institution. The Management team's collaborative approach aims to make everyone feel that he or she contributes to attaining the Bank's objectives. Satisfied clients and engaged employees are essential in anchoring the image the Bank projects in its milieu. National Bank's top ranking among credit and savings institutions in a survey published in the March 2003 issue of *Revue Commerce* on the most admired companies in Quebec stands as eloquent testimony to that commitment.

Given our solid results and the health of our financial institution, we are confident about the coming years and will continue to move forward using our proven strategy. The strong upturn in the U.S. economy and the rally of financial markets should fuel renewed corporate financing and merger and acquisition advisory services. For this reason, we consider wealth management to be a sector with potential, now that we have completed the requisite task of implementing our marketing and service infrastructure with our client segments.

Our partnership agreements are expected to be another key source of growth for Personal Banking, especially outside Quebec. The infrastructure is in place and results are on target. National Bank is by far the leading player in marketing financial services through independent financial advisor networks.

Fiscal 2003 was one of the most positive years for National Bank and its shareholders, and we are very optimistic about the future. I would like to congratulate all personnel of the Bank and its subsidiaries for the work they accomplished and for the unwavering support they gave the Management team.

National Bank's main challenge in the years ahead will be to carve out the best position for itself in the reshuffle that may result when the moratorium on bank mergers is lifted. National Bank's position in the Canadian financial system is unique. As the only intermediate-size institution, the Bank enjoys greater flexibility under current legislation in terms of the options it can pursue. Its Quebec-centred business model distinguishes it from its main competitors, which, to varying degrees, have international ambitions. Clearly, the better the Bank's performance in the operations and markets where it is active today, the better positioned it will be to come out ahead in the evolving framework of the Canadian financial industry.

Réal Raymond

Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS*

* *See inside back cover for Caution Regarding Forward-Looking Statements*

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND OPERATING RESULTS

OBJECTIVES AND RESULTS

All commitments met

In its 2002 Annual Report, National Bank published its strategic objectives for fiscal 2003. These performance measurements were chosen because they are the best indicators of the Bank's ability to create value over the long term. The targets were set so as to create an attainable challenge given the current context and the organization's own strengths. More specifically, the Bank had committed to grow its earnings per share by 5% to 10%, to offer a return on common shareholders' equity of 14% to 16%, to maintain a Tier 1 capital ratio of 8.75% to 9.50%, and to pay dividends representing between 30% and 40% of net income attributable to common shareholders. The Bank delivered on all these commitments. The table below compares the objectives with the results achieved as at October 31, 2003.

Objectives and Results

	Results	Objectives		
	2003	2003	2004	Medium term
Growth in earnings per share(1)	**21%**	5% – 10%	5% – 10%	More than 8%
Return on common shareholders' equity	**16.5%**	14% – 16%	15% – 17%	15% – 17%
Tier 1 capital ratio	**9.6%**	8.75% – 9.50%	8.75% – 9.50%	8.25% – 9.00%
Dividend payout ratio	**32%**	30% – 40%	35% – 45%	35% – 45%

(1) *Excluding the impairment charge taken on an investment in 2002*

For fiscal 2003, the Bank posted record net income of $624 million, up 45% compared to the $429 million of the previous fiscal year. In 2002, the Bank had recorded a $112 million net-tax impairment charge as a result of the revaluation of an investment in a technology company. Excluding this charge from the 2002 results, net income for 2003 rose $83 million or 15%. Earnings per share reached $3.37 for the year as against $2.18 for 2002 ($2.79 if the impairment charge for an investment is excluded). Return on common shareholders' equity was 16.5% in 2003 versus 11.3% a year earlier (14.3% if the impairment charge for an investment is excluded). This performance was achieved while maintaining a capital ratio of 9.6%, slightly higher than the upper limit of the target range, and paying out 32% of net income in dividends.

For fiscal 2003, total revenues on a taxable equivalent basis reached a new high of $3.5 billion, almost $350 million or 11% higher than for the previous year. This increase mainly came from other income, which grew 28% to reach $2,093 million as at October 31, 2003 or 60.5% of total revenues. Operating expenses were $2,259 million, with $83 million of the $219 million increase due to the addition of a full year of operating expenses for the companies acquired in 2002 and about $30 million to the increase in variable compensation. If these items are excluded, operating expenses would have risen by approximately 5%. Expenses nonetheless increased at a slower pace than income. The efficiency ratio stood at 65.3%, versus 65.5% in 2002 (62.8% if the impairment charge for an investment is included). In addition, loan losses were down 64% compared to 2002 and represented only 0.45% of average loans and bankers' acceptances, signalling a marked improvement in the quality of the Bank's portfolio.

The consolidated results are discussed in greater detail on page 46 of the Management's Discussion and Analysis.

Consolidated Results
Year ended October 31
(taxable equivalent basis)[1]
(millions of dollars)

	2003	2002	Change %
Net interest income	**1,366**	1,473	(7)
Other income	**2,093**	1,641	28
Total revenues	**3,459**	3,114	11
Operating expenses	**2,259**	2,040	11
Contribution	**1,200**	1,074	12
Provision for credit losses	**177**	490	(64)
Income before income taxes	**1,023**	584	75
Income taxes	**374**	236	58
Non-controlling interest	**27**	30	(10)
Discontinued operations	**2**	111	(98)
Net income	**624**	429	45
Average assets	**71,671**	69,292	3
Risk-weighted assets	**40,061**	38,978	3
Average deposits	**48,546**	48,897	(1)
Net impaired loans[2]	**(154)**	(159)	3
EPS	**$3.37**	$2.18	55
ROE	**16.5%**	11.3%	
Efficiency ratio	**65.3%**	65.5%	

(1) Given the need to compare activities that are different in nature, revenues are presented on a taxable equivalent basis. See the Glossary for more details
(2) Net of specific and general allowances

In light of the positive changes in operations, the Bank believes it can set significantly higher performance criteria. The objective for earnings per share growth remains within the 5% to 10% range for 2004, but should progress towards a minimum of 8% in the medium term. The Bank also believes that it can raise its target ROE by 1% to between 15% and 17%. According to the regulatory authorities, a well-capitalized bank should maintain a Tier 1 capital ratio of 7%. Not only did National Bank of Canada set more stringent objectives for itself by establishing the range between 8.75% and 9.50%, but it has also been aiming for the upper limit of this objective for several years. The Management of the Bank is convinced that it can ensure sound operations by gradually reducing this level of capitalization to a range of between 8.25% and 9.00% in order to free up amounts that could be invested to improve performance or distributed to shareholders. Consequently, National Bank of Canada has decided to increase the dividend payout ratio to the 35% to 45% range.

THE BANK'S STRATEGY

Focussing on key factors

A super-regional bank...
National Bank's strategy is solidly geared to the Canadian market, particularly the Quebec market. The model adopted by the Bank is that of a super-regional bank, a model that has proven successful in the United States. A super-regional bank is a bank that concentrates its resources in a given area rather than country-wide. In National Bank's chosen market, it aims to occupy the lead position in its Retail Banking and SME segments—a position that will give it a solid footing it can defend against the larger players with which it competes at the national level.

With its new slogan "Quebec's leading bank", the 2003 advertising campaign had a positive effect on enhancing our reputation, which translated into increased customer loyalty as evidenced by the greater number of Quebecers who cited National Bank of Canada as their main financial institution.

...with well chosen niches across Canada
Adopting this business model in no way prevents a bank from moving beyond its core market. When doing so, however, it must be selective and choose specialized niches that do not require a concentrated network of outlets. Capital market activities—including full-service brokerage and mutual funds—can be among these niches, particularly in Canada where the main brokerage firms are bank subsidiaries.

Keys to success

All banks with diversified activities have certain factors of success in common: a varied palette of profitable products, credit quality, operational efficiency and sound financial management. National Bank closely monitors all of these aspects. To take full advantage of the business model it has chosen, six other factors of success, which underpin the Bank's various orientations, have been identified.

CONTINUE TO BE THE DOMINANT BANK IN QUEBEC
- By far the leading bank in Quebec, approximately double the size of its main bank competitor
- Ranked first or second among all banking institutions in all its priority markets

KEEP ACTIVITIES OUTSIDE QUEBEC VERY FOCUSSED
- Acquisition of Altamira
- Expansion of the full-service brokerage network
- Financing of up-and-coming companies in the energy sector
- Niches in corporate financing thanks to high-calibre investment bankers recruited through National Bank Financial

PROVIDE QUALITY SERVICE TO ATTAIN A HIGH LEVEL OF CUSTOMER SATISFACTION
- Marked increase in satisfaction among individual and business clients
- Best research of all brokerage firms
- First in terms of service quality of online transactions

CREATE ECONOMIES OF SCOPE THROUGH A DENSE AND VARIED OFFERING OF PRODUCTS
- Wealth management services deployed in the branch network
- National Bank insurance products
- Blue Chip GICs

MAINTAIN AN EXCELLENT LEVEL OF CAPITALIZATION
- Tier 1 capital ratio consistently above the target range

FORGE PARTNERSHIPS TO INCREASE REVENUES AND REDUCE COSTS
- Partnership with Investors Group, Great-West Life and London Life
- New partnership with MD Management

Organizational capacity

National Bank also assigns a great deal of importance to its organizational capacity. The nine members of the Executive Committee meet frequently and mechanisms have been established to facilitate their work as a team. For example, business units and support departments have signed service agreements that set performance standards for key criteria, such as response time, with a view to offering superior service.

Recruiting and retaining talented young professionals, as well as providing training to personnel, are key to the institution's overall performance. Linking the Bank's performance to compensation ensures the engagement of personnel. The Bank's bonus program, which is based on unit performance and individual performance, the variable compensation paid to the sales forces and the share purchase plan are all used to that end. Management also communicates regularly with employees to promote awareness about the Bank's performance, orientations and challenges.

SHAREHOLDER VALUE ADDED

Up 20% per year

Shareholder Value Added
Year ended October 31
(millions of dollars)

	2003	2002	2001	2000	1999	AAGR(1)
Available income	**599**	408	547	500	401	
Average common equity used	**3,624**	3,628	3,430	3,144	2,599	
Cost of capital (13%)	**471**	472	446	409	338	
Shareholder value added	**128**	(64)	101	91	63	19.4%
Stock market capitalization	**7,144**	5,366	4,616	4,727	3,378	20.6%

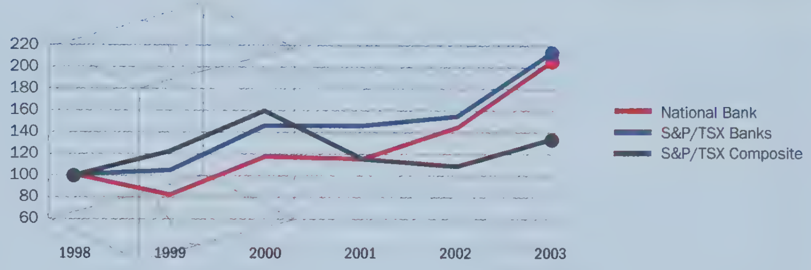
(1) *Average annual growth rate*

As the previous table shows, the Bank creates value for its shareholders. Shareholder value added (SVA) is calculated by deducting the cost of capital from available income (before goodwill charges). The cost of capital, conservatively estimated at 13%, is the minimum compensation required by the Bank's common shareholders in light of returns available elsewhere on capital markets. Value created for shareholders in 2003 was $128 million, exceeding what shareholders could have expected from investments having an equal degree of risk. SVA grew by $192 million compared to the negative SVA recorded in 2002. Over the past five years, National Bank of Canada has therefore created nearly $319 million of added value for its shareholders, for average annual growth of 19.4%. Stock market capitalization, which broke above the $7.1 billion mark as at October 31, 2003, grew at a comparable pace.

SHAREHOLDER RETURN

In line with the industry

Total Return Index
(1998 = 100)



Total shareholder return consists of the return on the share price, assuming dividends are fully reinvested. After posting weaker growth than the industry from 1998 to 2001, the Bank has substantially narrowed the gap. Since 1998, the Bank's total shareholder return has been 108%. The Bank's return over five years is therefore in line with the 112% posted by the Canadian banking industry, which itself outperformed the TSX index by far (36%). From October 31, 2002 to October 31, 2003, the Bank's shareholder return was 43%, or 5 points more than the 38% recorded for all banks.

ECONOMIC ENVIRONMENT

Canada will continue to be a leader in terms of economic expansion

Economic conditions in 2003

Canada's economic performance lagged somewhat in 2003. Its growth rate can be expected to settle in the neighbourhood of 2.0%, down from 3.3% in 2002, owing mainly to difficulties in a few sectors. Airlines, hotels and restaurants were hard hit in 2003 because of the outbreak of SARS. The embargo against Canadian beef exports weakened the economies of certain regions. However, the greatest downward pressure overall came from the sharp decline in U.S. demand for our manufactured goods.

The manufacturing industry, moreover, had to contend with a soaring Canadian dollar, and manufacturers were forced to react by reducing their payroll. During the first nine months of the year, 77,700 jobs in this sector were slashed, nearly half in Quebec alone. As a result of this bloodletting, net job creation in Quebec, if any, will be negligible in 2003. Fortunately, this situation did not seem to have an overly negative impact on the morale or financial situation of households. On the contrary, personal bankruptcies in Quebec increased to a far lesser extent than in the rest of the country in 2003. Quebec experienced not only one of the largest gains in retail sales in the country, but also an even stronger year in housing starts compared to 2002.

Commercial bankruptcies, for their part, remained stable in Quebec in 2003. In fact, the Bank did not notice any increase in the risk profile of its entire portfolio of loans to small and medium-sized businesses. Large manufacturing companies, on the other hand, were primarily responsible for the higher amounts involved in commercial bankruptcies in Quebec in 2003. Conditions were particularly tough for the steel industry, which is pitted against intense foreign competition, while the aerospace industry has had to deal with weak demand (because of overcapacity in the airline industry), and paper mills have had to lower prices on their products.

The rising Canadian dollar put added pressure on the manufacturing sector, which is nevertheless in a better position today than it was at the start of the 1990s when the dollar gained 24%, from US $0.72 at the end of 1986 to US $0.89 five years later. Admittedly, the financial situation of manufacturers was precarious even then because of a low capacity utilization rate and high debt levels. Today, however, the capacity utilization rate is high and balance sheets have been thoroughly cleaned up. Some sectors, namely those that depend more on exports and tend to import fewer raw materials, are still the most vulnerable. After steel and paper producers, the most obvious sectors are wood products and furniture.

We believe that the appreciation in the Canadian dollar is not a flash in the pan. We even expect that it will reach US $0.80 within a year. The economic backdrop has never been better for our currency. In fact, Canada is the only G-7 country with a surplus in both its budget and current account. Conversely, in the United States, which has large deficits in both, the dollar could suffer as a result.

Furthermore, Canada is a net exporter of energy, a fact that is of no small importance in light of current geopolitical tensions. With economic recovery under way around the globe, commodity prices should rise, as should the currencies of commodity exporters such as Canada.

Faced with a rising dollar and the need to restore profitability, companies will have to invest to boost their productivity. At the very least, the higher value of the Canadian dollar will mean that the relative cost of investing in imported equipment will be lower here than in competing countries.

Outlook

We expect the Canadian economy to expand by 2.9% in 2004, which would position Canada second among the G-7 countries, just as in 2003, though down from its first place standing in 2002. Canada will therefore remain an economic leader in the early stages of the new millennium. This projection hinges on increased investment levels and, of course, the recovery of the U.S. economy, which should expand 4.2% in 2004. Short-term interest rates in the United States will not likely rise as a result of this growth, while in Canada, they could even be lowered as the falling prices of imports is having a beneficial effect on inflation.

However, the two sizeable deficits south of the border, combined with an improved economic outlook in other parts of the world, can be expected to exert upward pressure on U.S. bond rates. Canada's improved balance sheet should rein in the rise such that Canadian bond rates could be on a par with U.S. rates in the near future.

Implications for the Bank

In contrast to 2003, demand for commercial credit will probably increase in 2004. The Bank will watch the manufacturing sector closely. Any deterioration in the quality of the loan portfolio will be containable as long as our clients benefit from higher demand from the United States to offset the rising value of the Canadian dollar.

Furthermore, the Bank foresees sustained residential construction activity in 2004.

As a result of the stock market recovery in recent months, savers will gradually return to the stock market, either through direct stock purchases or through mutual funds. Online discount brokerage and full-service brokerage activity is already on the rise. However, most savers should continue to seek out a certain degree of security. The Bank will therefore continue to promote its line of protected capital products and to recommend financial instruments with guaranteed returns.

STAKEHOLDERS

Across-the-board performance

Although the *raison d'être* of any company is to achieve good returns for its shareholders, the performance of a bank is measured not only in financial terms, but also by its ability to meet the expectations of all parties that put their trust in the institution.

For a company such as National Bank, whose success depends on its ability to forge long-term relations with its clients, customer satisfaction is the key to continued growth and profitability. That is why the Bank has made quality service and customer satisfaction its top priorities. Each business unit and all centralized service centres have an action plan that yields quantifiable results. The level of customer satisfaction is continually tracked to evaluate efforts made and identify

areas on which the Bank must focus. For example, branch customers are regularly surveyed for their opinion on all aspects of the services we offer, from the courteousness of branch personnel, to their appreciation of automated banking machines and the quality of our advisory services.

The Bank's efforts in recent years have yielded remarkable results, with an increase in the number of clients who claim to be satisfied or very satisfied with our services. This improvement can certainly be chalked up to our efforts, but it also reflects the fact that clients are quick to show their appreciation when they feel that their concerns are taken seriously and that they are being listened to.

Putting the focus on clients is also a very effective means of engaging personnel. It mobilizes everyone within the Bank, from the frontline personnel who greet clients at the branches to those who input transactions at the administrative centres. Our commitment to clients is echoed at every level in the organization. Everyone is bound by internal service agreements to meet deadlines, eliminate irritants and minimize errors while increasing productivity. Our commitment to our clients has a domino effect on the people who work behind the scenes to help the Bank to deliver superior service in every respect. Needless to say, responding promptly and ensuring total quality calls for streamlined, yet highly effective, technological processes. In the long run, such discipline translates into lower costs.

Another key factor is the competency of personnel. The Bank has focussed considerable resources and attention on developing its human capital and instilling a true culture of excellence. The criteria used in hiring personnel, appraising their performance and promoting them were honed and tightened. The progress of each unit is measured by a scorecard referred to as the "human resources certification" and has a direct influence on the bonuses paid to supervisory managers as well as customer satisfaction. Training activities offered through the Bank and through external institutions are available to and recommended for all employees. Through a partnership with the *Université du Québec à Montréal*, the National Bank University Program offers courses at the undergraduate and graduate levels. In its seven years of existence, this program has enabled nearly 5,000 Bank employees to successfully complete university courses related to their line of work. Three Bank employees have been awarded the Mercure-Pouliot bursary for an essay on managing professional ethics risks faced by financial planners at National Bank. As was the case with our emphasis on customer satisfaction—no doubt because customer satisfaction and staff competency are closely related—the results have been positive from the outset and our personnel continue to strengthen their competencies year after year.

Retaining young achievers by fast-tracking their careers, creating an environment where it is easier to reconcile work and family responsibilities and encouraging ongoing dialogue between management and employees through programs such as the Leaders' Institute are all measures the Bank has implemented to ensure it has top-calibre employees who take pride in belonging to a highly respected company.

Lastly, the Bank is dedicated to helping the communities it serves. In keeping with its own business model, the Bank is committed to listening to the needs of the community. This intimate understanding of its local market not only gives it a definite competitive advantage, but also helps it rally "movers and shakers" who can carry out important community projects.

As a financial institution, we can make a difference through the business decisions we make. Our social involvement can also be measured by the financial resources we give to the community through donations, sponsorships and fundraising. Social involvement goes well beyond relations between the Bank and society. Many Bank employees are leaders in charity organizations, represent community interests, are involved in recreational groups or support groups for people who need a helping hand. The Bank's Social Responsibility Report provides details on the social involvement of the Bank and its employees.

BUSINESS SEGMENT ANALYSIS*
BUSINESS MIX

National Bank of Canada is a well-diversified business with over half its revenues and income generated by the Personal and Commercial segment. The other two segments—Financial Markets and Wealth Management—also make significant contributions to revenues and net income. Revenue growth in 2003 did not alter the revenue structure, but the same cannot be said of income. Although the revenue structure remained essentially unchanged between 2002 and 2003, the Wealth Management segment generated a larger share of income versus 2002 (+2%). The Personal and Commercial segment generated 51% of the Bank's earnings, up 3% over 2002. Financial Markets generated more revenues and less income in 2003 than the previous year.

Business Mix(1)
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

Financial Markets
Wealth Management
Personal and Commercial

(1) Excluding the "Other" heading

The breakdown of the Bank's economic capital was not modified this past year. Economic capital is allocated to business segments on the basis of their evaluated risk level. As shown in the table, the Wealth Management segment uses little capital in relation to the income it generates, giving it an exceptionally high risk-adjusted return on capital (RAROC) ratio of 35.2%, an increase of nearly 6% over fiscal 2002. This performance was achieved despite an efficiency ratio of 79.9% which, although it has improved, remains considerably higher than the 61.6% rate recorded by Personal and Commercial and the 56.6% rate in the Financial Markets segment.

Shareholder Value Added and Capital Breakdown by Business Segment
Year ended October 31
(millions of dollars)

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Net income available	**314**	269	**79**	65	**227**	234	**(21)**	(160)	**599**	408
Cost of capital	**209**	207	**29**	29	**157**	159	**76**	77	**471**	472
RAROC/ROE	**19.5 %**	16.9 %	**35.2 %**	29.5 %	**18.9 %**	19.2 %	**(3.7)%**	(27.0)%	**16.5 %**	11.3 %
Shareholder value added	**105**	62	**50**	36	**71**	76	**(98)**	(238)	**128**	(64)
Economic capital	**1,611**	1,593	**226**	220	**1,205**	1,221	**582**	594	**3,624**	3,628
Allocated to:										
Credit risk	**80.4 %**	80.8 %	**3.9 %**	5.4 %	**44.9 %**	51.6 %	**37.9 %**	43.7 %	**57.0 %**	60.3 %
Market risk	**3.1 %**	3.0 %	**2.3 %**	2.3 %	**38.1 %**	35.4 %	**49.0 %**	51.5 %	**22.1 %**	21.8 %
Operational risk	**16.5 %**	16.2 %	**93.8 %**	92.3 %	**17.0 %**	13.0 %	**13.1 %**	4.8 %	**20.9 %**	17.9 %
Efficiency ratio	**61.6 %**	62.5 %	**79.9 %**	82.8 %	**56.6 %**	50.2 %	–	–	**65.3 %**	65.5 %

The three business segments have very different risk profiles. Personal and Commercial draws the largest share of economic capital ($1,611 million) and is affected primarily by credit risk (80.4%) and, to a lesser degree, operational risk (16.5%). The Wealth Management segment is sensitive to operational risk (93.8%), while the Financial Markets segment, contrary to popular belief, has the most diversified risk: only 38.1% of that segment's economic capital is effectively allocated to the market, whereas 44.9% is attributable to credit activities and 17.0% to operations. Overall, the Bank made progress in diversifying its risk in 2003, reducing credit risk from 60.3% to 57.0% by allowing slightly

** The provision for credit losses for the segments is determined according to expected losses, which are established through statistical analysis. The difference between expected losses and actual losses is recorded under the "Other" heading in the segment results.*

greater exposure to market risk (from 21.8% in 2002 to 22.1% in 2003) now that a recovery is on the horizon. However, not all those risks are managed the same way. Risk management is discussed in more detail on page 57.

Every line of business added shareholder value for the Bank in 2003. Personal and Commercial contributed the most ($105 million) and recorded the strongest growth in its shareholder value added (SVA), which jumped 69% from the previous year. The Financial Markets segment generated $71 million in SVA, while Wealth Management increased its contribution by $14 million to reach $50 million. Given the excellent capitalization and strong profitability of all its business segments, the Bank does not have any specific plans to reallocate capital.

Average Assets, Risk-Weighted Assets, Average Deposits
Year ended October 31
(millions of dollars)

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Average assets	**38,679**	38,337	**665**	769	**37,819**	37,067	**(5,492)**	(6,881)	**71,671**	69,292
Risk-weighted assets	**25,222**	24,547	**659**	739	**16,020**	16,348	**(1,840)**	(2,656)	**40,061**	38,978
Average deposits	**29,359**	27,984	**1,951**	1,654	**17,416**	19,553	**(180)**	(294)	**48,546**	48,897

The Bank's average assets amounted to $71.7 billion this past year versus $69.3 billion in 2002, an increase of 3.4% with little change among the business segments. Average deposits fell 0.7% to $48.5 billion in 2003. The 4.9% and 18.0% increases in the average deposits of the Personal and Commercial segment and the Wealth Management segment between October 31, 2002 and October 31, 2003 were offset by a $2.1 billion decline (10.9%) in the Financial Markets segment. Total risk-weighted assets rose 2.8% or $1.1 billion to reach $40.1 billion at year-end owing mainly to market risk items (+$559 million), which were largely attributable to expanded trading activities. The remainder of the increase resulted chiefly from the volumes of investment account securities and growth in the mortgage loan portfolio.

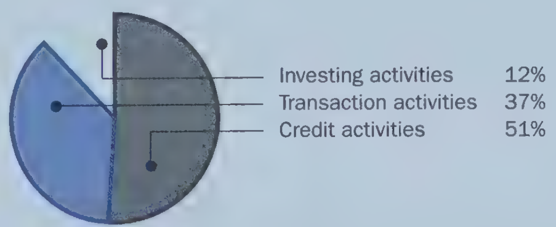
PERSONAL AND COMMERCIAL

In many ways, the Personal and Commercial segment is the Bank's most important line of business since it is responsible for the Bank's traditional activities and accounts for the largest share of employees, revenues, earnings and assets. The services it provides are constantly evolving. In addition to its traditional transaction, lending and deposit-taking operations, the Personal and Commercial segment offers individuals and businesses new services such as specialized financing, virtual access, payment options, insurance and international services. As its name indicates, this segment comprises two major types of activities—Personal Banking and Commercial Banking—each with its own senior vice-president.

Personal Banking Subsegment

The mission of the Personal Banking subsegment is to offer its clients outstanding transaction, lending, credit card, insurance and investment solutions that help them to achieve their financial goals.

Personal Banking Revenues
($1,181 million)



First and foremost, Personal Banking is more than 5,400 employees who serve nearly 2.6 million clients across Canada through a network of 477 branches, over 800 banking machines and virtual service infrastructures adapted to current realities.

Most of the revenues of the Personal Banking subsegment (51%) were generated by credit activities, while 37% came from transaction activities and 12% from investing activities. Overall, revenues climbed 5% in 2003, with the strongest increase in the credit activities category, which was up 12% chiefly as a result of better spreads rather than higher volumes. The decline in transaction activities from 2002 to 2003 was prompted by narrower spreads on transaction deposits.

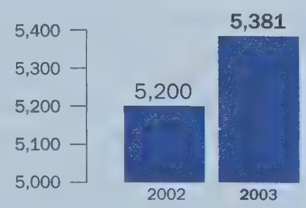
Revenues – Personal Banking
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Transaction activities	**442**	454	(3)
Credit activities	**592**	528	12
Investing activities	**147**	138	7
Total	**1,181**	1,120	5

Transaction activities
In terms of transaction activities, the Bank is faced with a definite challenge: increase its revenue per client in a competitive environment that is both fierce and highly regulated and in a context characterized by strong consumer resistance to service charges as well as low interest rates that generate reduced spreads on deposits.

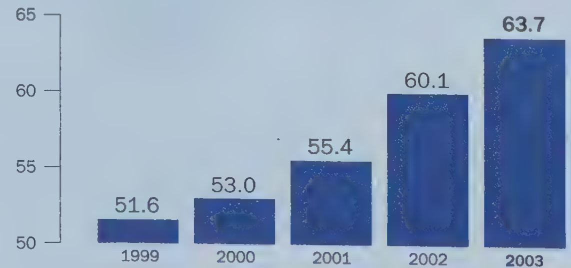
To meet this challenge, the Bank focussed on re-engineering its range of solutions. National Bank's offering has been greatly simplified and optimized and now consists of six types of accounts (Chequing, Special Project Savings, Crescendo, Strategist, Natcan Strategist and US$ Progress) and four banking packages (Accessible, Direct Access, AccessPlus and Virtuoso) that allow for a variety of service combinations covering every need, from the most economical to the most sophisticated. The average volume of transaction deposits rose 3.5%.

Transaction Deposits
(millions of dollars)



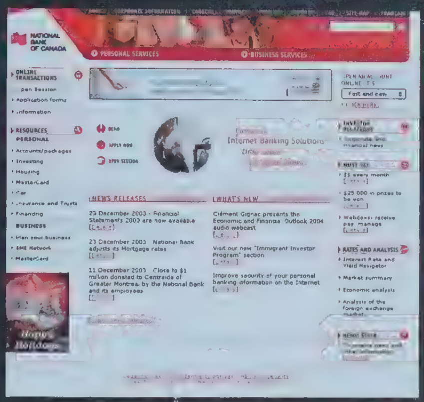
Transaction services have undergone a profound change in recent years with the deployment of the Internet and other electronic transaction methods. Not only has the number of transactions risen substantially (an average of 5.4% per year since 1999), there has also been a major migration of clients towards remote transaction methods. As a result, the number of transactions per quarter carried out by non-electronic means dropped from 17 million to 12 million between 1999 and 2003, while the number of electronic transactions soared to 52 million per quarter, for an average annual growth rate of 10.4%.

Transactions per Quarter
(millions)



The Bank's Internet strategy therefore has to be aligned to take advantage of this trend which is likely to lower the unit cost of transactions. In 2001, we implemented an Internet strategy in order to provide clients with simplified, reliable access to our products and services. A technology infrastructure that could meet current and future needs was developed, making it possible to update the www.nbc.ca portal, among other projects. All transaction activities have been centralized on the Bank's website so that clients can do their banking online. In just a few months, the number of visitors to the Bank's site climbed by about 20%, the sale of banking products and services rose 53% and customer satisfaction neared the 100% mark. In 2003, National Bank won two major awards in the 23rd edition of the *Mercuriades* organized by the *Fédération des chambres de commerce du Québec*: first prize in the Internet Strategy category and the Bell Special Award for the use of new information technologies. In recognition of the quality of its Internet strategy, the Bank was also a finalist at the Octas Gala organized by the *Fédération de l'informatique du Québec*.

PERSONAL INTERNET BANKING SOLUTIONS IS SECURE AND LETS YOU CARRY OUT YOUR BANKING TRANSACTIONS AND MANAGE YOUR FINANCES 24/7.



- Consult a list of your past transactions (90 days)
- Consult the balance of all your accounts simultaneously
- Transfer funds between accounts
- Export data to financial planning software
- Order cheques
- Receive your bills (via webdoxs) from any of 900 suppliers and pay them online
- View the list of your past bill payments
- Transfer funds to other National Bank clients
- Obtain financial information
- Buy or sell National Bank Mutual Funds
- Apply for a mortgage or personal loan
- Make investments and manage your RRSP
- Consult the balance of your National Bank MasterCard account

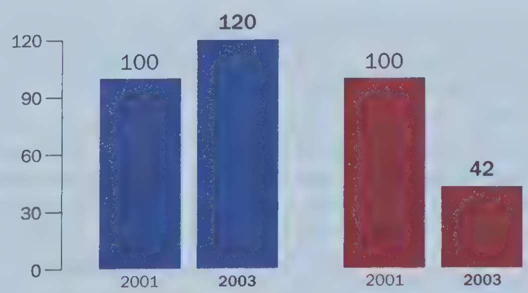
The Bank's website is not the only electronic tool available to consumers. Reflecting its mission to better serve the transaction needs of its clients, the Bank also provides telephone banking services, the largest banking machine network of any bank in Quebec and access to The Exchange Network, which serves to extend the Bank's banking machine services beyond Quebec.

In the wake of this shift in transaction methods, the configuration of the Bank's branches is gradually being modified. Special attention has been paid to the branch layout to bring it in line with the new vocation which is no longer solely transaction-based and is increasingly oriented towards advisory services. A pilot project to update our outdoor signage has also been launched and the new look should be deployed in 2004.

Customer satisfaction with branch service is always at the heart of the Bank's concerns because highly satisfied clients will naturally turn to us for their credit and investment needs. The Destination Client program, which was rolled out at every level of the Bank, involved not only establishing service standards, but enhancing personnel awareness, providing training and measuring results on an ongoing basis. As a result, the number of Bank clients who said they were "very satisfied" rose 20% between 2001 and 2003. The number of clients who were not satisfied, which was already low, dropped 58% during the same period.

Customer Satisfaction in Quebec
(2001 = 100)

Clients stating they were very satisfied
Clients stating they were not satisfied



Credit activities

The Bank's principal activity on the credit side is mortgage lending. We offer a line of five basic fixed- or variable-rate products which are complemented by innovative features such as the Multi-Choice option used to diversify mortgage maturity dates, the revolving clause that simplifies subsequent borrowing, and the Home Warranty Program covering major repairs. In 2003, our promotional campaign focussing on a 6% cashback offer was very successful and we rolled out a new "non-negotiable" product with a term of four and a half years. The volume of five-year mortgages with a rate that varies on a monthly basis doubled in comparison to 2002.

A large-scale initiative was launched in order to maximize the mortgage renewal rate without unduly impacting profit margins. The goal is to assign 100% of our clients to Bank representatives within three years.

In addition to mortgage loans, the Bank's credit offering includes three lines of credit. The Flex Lines are designed to meet a variety of client financing needs ranging from one-time projects to large-scale undertakings such as major renovations or retirement planning.

In addition to those activities, the Personal Banking subsegment offers credit card and insurance services.

National Bank is among the leading MasterCard issuers in Canada and ranks among the 100 largest Visa and MasterCard issuers in the world according to a Nielsen report released in December 2001. The credit card unit was particularly active this past year with the introduction of two new products. The Premia card designed specifically for small businesses and self-employed entrepreneurs was launched in September. Its features include discounts for cardholders from select partners. The Platinum card, introduced in October 2003, is a premium card offering a highly flexible rewards program to earn points that can be redeemed for travel. Cardholders are free to use the travel agency and airline of their choice.

In recent years, the Bank has implemented strategies to activate its credit cards and stimulate their use. For example, credit limits have been raised in order to encourage low-risk clients to rely on their National Bank MasterCard as their primary or only credit card. These strategies have been successful, with average outstanding credit card volumes climbing 10.3% in 2003. The amounts charged to accounts, which determine what merchants pay to the card issuer, were up 5.7%. These results were achieved despite a decline in the number of active cards following the termination of certain private-label programs that no longer met our profitability criteria.

These popular credit cards and lines of credit, which are integrated with high-quality transaction solutions in our banking packages, place the Bank in a good position to take advantage of the rising demand for revolving credit. The annual growth rate for the past two years was 25% industry wide. In October 2003, revolving credit accounted for 68% of non-mortgage personal loans, up from 56% in November 2001. For the Bank, the advantage of this type of credit is that it is more profitable and more stable than instalment loans in terms of volume.

National Bank offers a broad range of insurance products through three subsidiaries: 1) National Bank Life Insurance Company, whose activities focus chiefly on insurance products related to credit instruments (credit cards, mortgages, consumer loans); 2) National Bank General Insurance, which specializes in automobile insurance; and 3) National Bank Financial Services, our brokerage that offers life insurance and investment products for individuals and businesses.

Insurance revenues were up in 2003 with much of the natural growth attributable to National Bank General Insurance—a joint venture with AXA—which generated significant profits in 2003 after only four full years of operations. This subsidiary has gained considerable market share in a short time thanks to its direct marketing strategy combining the brand awareness of the Bank in Quebec with offers for low-risk drivers. National Bank General Insurance takes advantage of a streamlined cost structure to achieve the kind of economies of scale enjoyed by major insurers.

Our efforts outside Quebec in 2003 focussed on implementing the partnership agreements concluded in 2002 and developing new agreements. Under the agreement signed in late 2002 with Investors Group, Great-West Life and London Life, delivery of the Bank's banking products was scheduled to start in June 2003. The first part of fiscal 2003 was therefore devoted to setting up the framework to enable the partner companies' approximately 7,000 advisors to distribute our products and services under their respective banners. During that intensive phase, the Bank had to manage the operations of many teams. Those efforts led to the on-time launch of the SolutionsBanking program by Investors Group. In the fall of 2003, Great-West Life and London Life also launched their banking programs based on the same elements delivered earlier in the year to Investors Group. At the same time, the Bank undertook negotiations and subsequently signed a five-year service agreement with MD Management, a subsidiary of the Canadian Medical Association specialized

in managing financial products and services for physicians and their families as well as medical students. Under the agreement, banking products from National Bank will be distributed by the group's 150 advisors. The synergies resulting from these various partnerships matched our expectations and positioned the Bank as the leading institution in manufacturing financial products for third-party distribution networks.

Investing activities

The branch network acts as distributor of a varied range of savings products that can be divided into two categories. The first category consists of term deposits in registered or non-registered form. Almost all the revenues from those products are recorded under the Personal and Commercial segment. The second category comprises investment vehicles and services that are generally manufactured by subsidiaries in the Wealth Management segment. For that product category, the branch network earns distribution commissions.

The Bank has a long tradition of innovation in deposit products. It was the first bank in Canada to launch structured GICs that guarantee the principal while allowing investors to take advantage of capital market returns. Our retail credit and investment solutions team offers other original, effective products such as the Canadian Blue Chip Portfolio-Linked Note (hailed as innovative by the Canadian Press), the Active Management GIC (with returns linked to hedge funds) and index-linked deposits whose returns are among the best in the industry.

The Strategic Portfolios from National Bank Securities and Private Investment Management from National Bank Trust are among the products manufactured by subsidiaries.

To round out their offering, the branches also distribute savings products manufactured by third parties. Fidelity mutual funds are one such example.

These products are sold and distributed by our financial services managers or personal bankers in the branches. In addition to this traditional distribution method, the products are also sold by a specialized team of financial planners grouped under National Bank Wealth Management. This group was deployed in the branch network with the goal of developing the market for savings management among high net worth clients. Compensation for members of that team is partly based on establishing and maintaining relationships with select clients and is pivotal in offering value-added wealth management advisory services to upscale client segments.

First deployed in 2001, the team of financial planners now numbers close to 300. Their role is to offer flexible, efficient financial planning services to more than 100,000 clients, meeting with them at the location of their choice when necessary. Thanks to an integrated offering of solutions, financial planners can meet the credit and transaction solution needs of their clients. Although they cannot provide advice on stock purchases, they can draw on a complete range of savings products such as the Strategic Portfolios from National Bank Securities or Private Investment Management from National Bank Trust. Clients can hold equities directly by means of the National Bank Discount Brokerage platform or by being referred to an Individual Investor Services broker at National Bank Financial. To date, financial planners are the only branch network employees remunerated on the basis of net asset inflows. This method not only favours the recruitment of new clients, but also helps maintain the special business relationship once it has been established. The experience is being monitored closely with a view to wider application.

The Bank's Investor Segments and Advisors

The results have been convincing since over 65% of Strategic Portfolio volumes are sold through this distribution channel. With each client assigned to a designated financial planner, the figures for mortgage renewals (96%) are just as revealing. In this way, the relationship provides more opportunities to both parties since long-term success presupposes a lasting relationship based on trust that enables advisors to manage their clients' emotional reactions to financial market performance in addition to managing their financial assets.

Commercial Banking Subsegment

The mission of the Commercial Banking subsegment is to offer businesses of all sizes and in all sectors the specialized products and services they need to run their operations successfully. In doing so, commercial clients can rely on the Bank's 76 commercial banking centres and its network of 477 branches. The Bank's service offering covers a broad spectrum and meets most businesses' needs through a line of specialized products. The Commercial Banking product line also comprises credit, cash management and investment products, with the latter two taking on even greater importance since 67% of our 156,000 commercial clients use only deposit products. National Bank is known as the bank most committed to the small and medium-sized enterprise (SME) market, a reputation it is proud of and intends to maintain. To emphasize this positioning, the Bank adopted and very successfully publicized the inc. logo as the trademark for its SME operations.

In 2003, all commercial clients, including small businesses, real estate financing clients and agricultural clients, were grouped together under the Commercial Banking subsegment in order to enable us to deploy more consistent, targetted strategies to earn their trust.

This strategy is in line with the Bank's business model. More than in any other business segment, National Bank has established a dominant position in the Quebec market. Based on data from the Canadian Bankers Association, National Bank holds nearly 40% of the banking market (seven largest Canadian banks) for commercial financing in the $250,000 to $5 million range. Its share is more than double that of its closest competitor, proving without a doubt that National Bank is the partner of choice for Quebec businesses.

In addition, the Bank has carved out niche markets outside Quebec, with the largest being energy sector financing in Western Canada. Our main focus is emerging businesses in the primary sector and service entreprises in the energy industry. National Bank's original expertise in this area dates back to the 1985 acquisition of The Mercantile Bank, a very successful endeavour in terms of business development and portfolio quality. Outside Quebec, the Bank's operations are concentrated in New Brunswick and Eastern Ontario (where the Bank has long benefitted from the necessary critical mass) as well as in targetted niches, such as the agri-food industry in the Prairies and Ontario, which are served by specialized commercial banking centres.

The Bank's agricultural financing operations have grown rapidly in recent years due in part to the transfer of family farms between generations. In such cases, it is necessary to reconcile the retirement income needs of the vendors, who have most of their often considerable assets tied up in the farm, with the new generation's ability to pay. The Bank offers an array of solutions that make judicious use of government programs. These services are highly decentralized among rural communities and are provided by account managers, most of whom have an educational background in both agricultural sciences and finance.

Another high-growth sector where the Bank offers specialized services is film and television series financing. National Bank is by far the leading provider for Quebec-based productions. In addition to producers and distributors, our clientele includes post-production, special effects and equipment leasing companies, as well as studios. In this field, too, the Bank draws on its expertise in order to set up low-risk financing structures that combine our in-depth knowledge of the sector and its players with assistance from various government support programs for the industry.

Teams of Bank specialists are also involved in other fields such as franchises and major expansion or acquisition projects requiring structured financing. The Bank offers bridge financing for residential and commercial real estate projects. To minimize risks, financing is provided only to groups with proven track records, projects located in familiar markets and those backed by contractual sales commitments. Drawing on our varied and extensive expertise in this sector, we always focus on the dual goal of serving our clients well and minimizing risk.

The international component of inc. activities is also very important. International business development managers, whose role is to advise commercial clients on export financing and international trade risk management, are located in most of the Bank's commercial banking centres across Canada. Moreover, through our NatExport and Sodex divisions, we provide factoring services for exporters.

In 2003, special attention was paid to portfolio quality. The slowdown in the U.S. economy and the rise in the Canadian dollar had a direct impact on goods-producing businesses competing with foreign companies. In contrast, businesses serving the domestic market, particularly service businesses, were not subject to the same pressure given the sustained level of household demand in Canada. All the indicators confirm that the SME sector came through the slowdown without too much difficulty. During the past year, the number of commercial bankruptcies in Quebec did not increase and there

was no deterioration in the segment's average risk rating. It is therefore not surprising that the level of net impaired loans in Commercial Banking fell from $146 million to $95 million between October 2002 and October 2003(1).

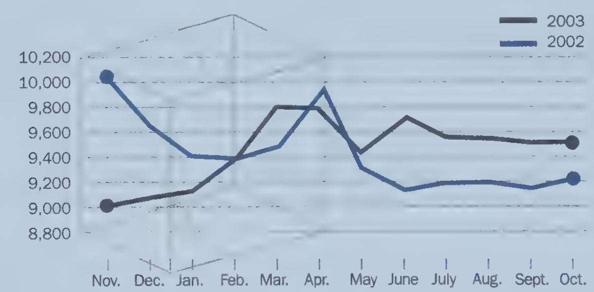
The Credit Department and Commercial Banking are working closely together in order to cut costs and processing times. They are also collaborating in updating credit approval and risk monitoring tools so that the Bank will be fully ready for the implementation of the new Basel Accord, an international treaty governing risk management for the chartered banks of the signatory countries.

In 2003, Commercial Banking revenues climbed 5% to reach $696 million. The energy portfolio showed the strongest growth, with an increase of 22%. The decline in real estate stemmed mainly from a very orderly withdrawal from discontinued operations, particularly in Ontario and the United States, in favour of residential projects with lower margins but also lower risk levels.

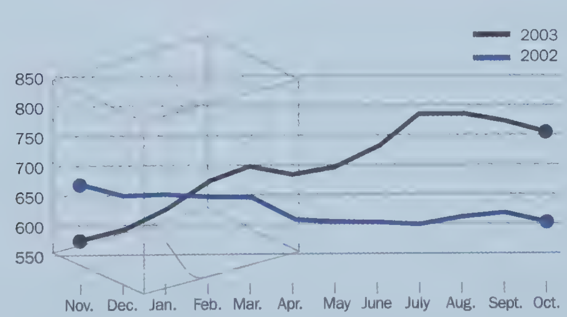
Revenues – Commercial Banking
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Small businesses	**246**	234	5
Commercial	**414**	395	5
Energy	**22**	18	22
Real estate	**14**	15	(7)
Total	**696**	662	5

Monthly Volume, Commercial
(millions of dollars)



Monthly Volume, Energy
(millions of dollars)



Fiscal 2003 was also characterized by a rebound in the volume of assets. At the beginning of the year, our volumes were growing but were lower than those for the same period a year earlier. Since May 2003, however, the situation has changed, with our 2003 volumes exceeding those recorded in the corresponding months of 2002. This seems to indicate that the effects of the economic slowdown on demand for SME loans at the beginning of the millennium have already abated and that volume growth will shift into high gear as the recovery takes hold. The turnaround in energy sector loans was even more pronounced. Initially, producers used the additional proceeds generated by higher prices to strengthen their balance sheets and pay off debt. That phenomenon was temporary, however, as they subsequently turned to the banks to finance renewed spending on exploration and development. Given the tensions in the Middle East, the oil and gas sector is expected to remain very dynamic in the years to come.

(1) *Excluding small businesses*

Results

During fiscal 2003, the Personal and Commercial segment as a whole generated $1,877 million in revenues, up $95 million or 5% over 2002. The gain was divided fairly evenly between net interest income (5%) and other income (6%). The rise in net interest income was driven by the spread, which widened from 3.10% to 3.23% on relatively stable average assets. Strict discipline in our pricing, especially for mortgages, accounted for the improvement in the spread. The reduction in annual average assets was brought about by our voluntary withdrawal from the indirect financing market as well as weak demand for financing among SMEs.

Results by Business Segment – Personal and Commercial
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Net interest income	**1,248**	1,190	5
Other income	**629**	592	6
Total revenues	**1,877**	1,782	5
Operating expenses	**1,157**	1,113	4
Contribution	**720**	669	8
Provision for credit losses	**207**	219	(5)
Income before income taxes	**513**	450	14
Income taxes	**185**	167	11
Net income	**328**	283	16
Average assets	**38,679**	38,337	1
Risk-weighted assets	**25,222**	24,547	3
Average deposits	**29,359**	27,984	5
Net impaired loans	**141**	208	(32)
Efficiency ratio	**61.6%**	62.5%	

The growth in revenues was accompanied by productivity gains, which limited the increase in operating expenses to 4%, and by a 5% decline in expected losses based on the portfolio risk profile presented under the provision for credit losses. In addition, net impaired loans fell sharply (32%), another sign of better portfolio quality, and the efficiency ratio improved significantly. As a result, the Personal and Commercial segment earned net income of $328 million, an increase of $45 million or 16% over the previous year.

Challenges and Strategies

For the Personal Banking subsegment, the major challenges will be to boost revenues by continuously improving service quality and achieving productivity gains. It will be difficult to bolster revenues from transaction activities because they are so sensitive to low short-term interest rates. Moreover, since consumers are increasingly sensitive about service charges, our room to manoeuvre is limited when it comes to other income. More extensive analysis of client segmentation will therefore be necessary in order to offer packages that meet client needs while we continue our disciplined efforts in terms of itemized pricing.

Protecting spreads and the growing role played by independent credit intermediaries are major issues addressed by the Bank in its strategy. By diversifying its market outside Quebec, the Bank will be able to generate additional volumes to compensate for the market shares it is unable to gain without lowering its prices. In this respect, distribution agreements with partners are crucial and their deployment is well under way.

It will be important to implement a genuine sales culture for savings products in the branch network in keeping with our wealth management objectives. Applying effective training and compensation policies and making major investments in technology will be essential so that the Bank can develop a better client image and more effective marketing strategies. Our distinctive expertise in savings combined with the wide-scale deployment of technological advances will enable us to adopt a much more aggressive competitive positioning in our natural market. With respect to credit cards and insurance, our growth strategy will be reinforced by the ongoing introduction of new products.

The main challenge for the Commercial Banking subsegment will be to raise profitability while maintaining portfolio quality and our position as the dominant relationship-based bank for commercial clients in Quebec. To achieve those goals, the Bank will have to enhance productivity by continuing to re-engineer operations at every stage of the service offering. This will involve greater automation of credit decisions, centralization of administrative functions and increased reliance on e-banking services. Some steps have already been completed, particularly for the Business Latitude card which meets the microcredit needs of entrepreneurs. Those clients now use our Direct.N@t SME call centre. Relationship-based services will be offered on a profitable, quasi-exclusive basis to borrowers with credit needs of $100,000 and to depositors in the same range.

One of the Commercial Banking subsegment's major objectives is to strengthen the Bank's position among depositors in order to boost profitability and penetration in the Quebec market. We aim to ensure that our offerings are highly competitive by taking full advantage of cutting-edge off-site services. In 2003, major progress was made in terms of functionality, and development in this area will continue.

To grow our business, we also plan to enter new specialized financing niches where we hope to reproduce the success we have achieved in the energy, motion picture and television sectors. We will go forward with our project to set up a "health services bank" with various partners in this important growth sector. Quebec will be the initial target market for this new specialized financing because of National Bank's unequalled ability to mobilize private and public partners with whom we have long-standing relationships. We also believe that specialized financing is the best approach in order to significantly expand our commercial operations on a profitable basis in markets where we have not reached critical mass, beginning with Ontario.

Commercial Banking intends to continue playing an active role in the development of other members of the National Bank family. Special emphasis will be placed on depositors in order to generate positive spin-offs for wealth management. In addition, efforts will be coordinated with National Bank Financial so that medium-sized enterprises can have direct access to capital markets. These kinds of opportunities can be found among companies in the energy sector in particular.

All these developments should further improve the quality of our service offering and enhance customer satisfaction. inc. wants to be the bank with solutions for SMEs. By being attentive to the needs of its clients and the community, National Bank has carved out a unique position in SME financing, a position it will continue to consolidate.

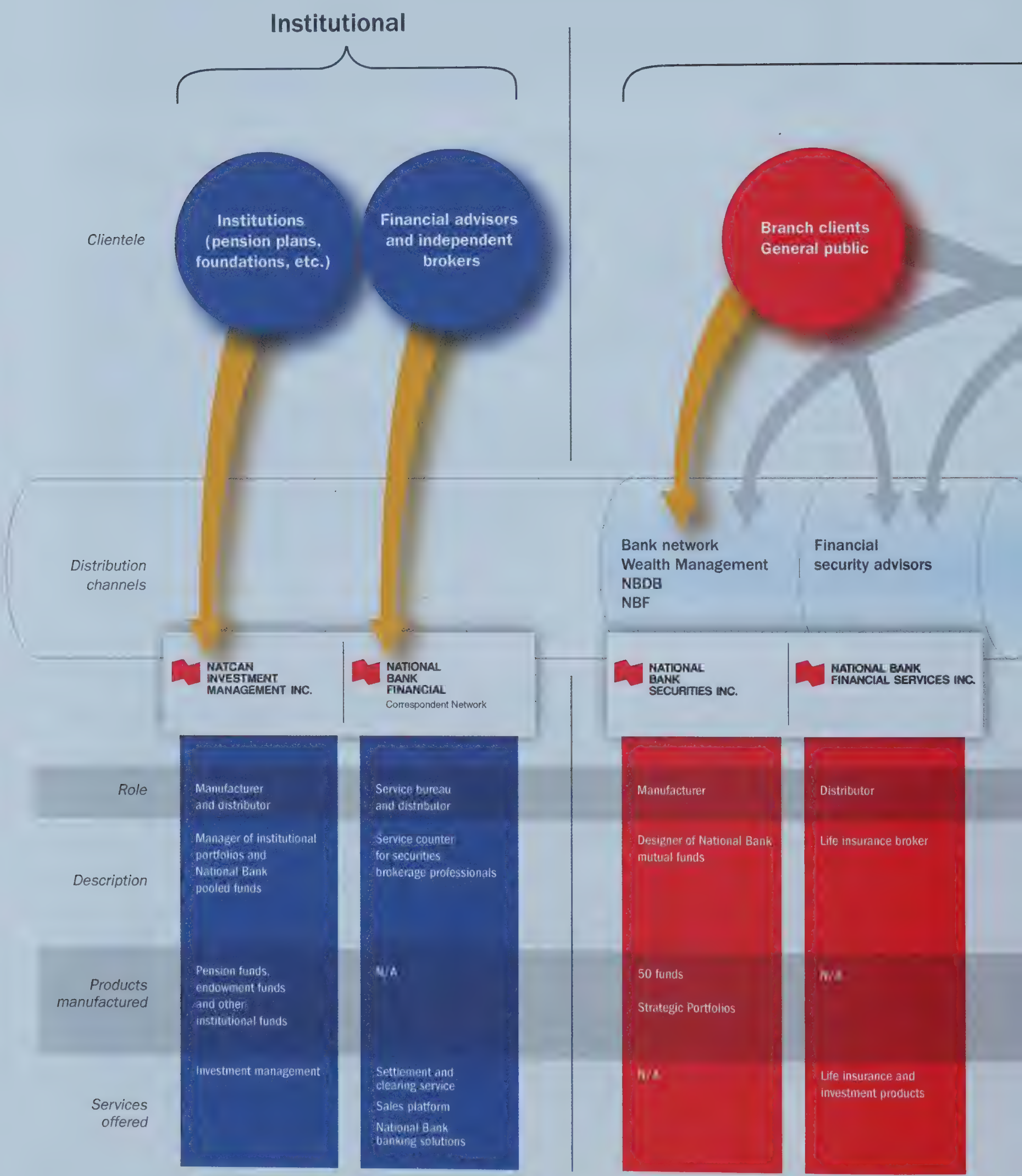
WEALTH MANAGEMENT

It should come as no surprise that the general aging of the population and the uncertain future of government pension plans are causing a shift from credit needs to savings and the management of accumulated wealth. Baby boomers are paying off their mortgages and are beginning to have significant net savings, which will need to be managed effectively. Poor stock market performances in recent years have made more than one high flyer turn cautious about holding securities directly. Rather than toiling over complex transactions, these investors expect their products to be managed by competent professionals. We believe this is the start of a noticeable trend.

Many professionals have come to the same conclusion and are seeking to position themselves to serve this market. Insurance agents, brokers, mutual fund managers and financial planners are all vying with each other to build a relationship of trust with the investor and obtain the privilege of managing most of his wealth. Given this context, the great strength of the banking industry lies in the fact that it already manages the bulk of clients' cash savings and in that it offers an expansive array of financial products and services. At National Bank, for instance, clients can count on full-service and discount brokerage services, trust services, access to professionals in all our Canadian branches, a family of more than 100 mutual funds, as well as wealth management and private banking services, to name only a few. This service offering comes with a selection of managed products manufactured by National Bank itself—a full suite of diversified and innovative investment solutions.

This segment is comprised of numerous subsidiaries whose mission is to offer our individual, self-employed and very small business clients a range of products and services designed to assist them in managing their savings and financial assets more effectively. The following table illustrates its composition.

The Wealth Management family and client strategy (1)



(1) *Income from Wealth Management and Insurance services are included in the Personal and Commercial segment*


Retail
Primary links
Secondary links
High net worth branch clients
High net worth investors who are not branch clients
Wealth Management
Bank network
Bank branches
Wealth Management
Private Banking
Bank network
NBF network
Altamira network
Independent advisors
Bank network
NBDB
NATIONAL BANK DISCOUNT BROKERAGE INC.
NATIONAL BANK OF CANADA
Wealth Management and Private Banking
NATIONAL BANK TRUST INC.
NATIONAL BANK FINANCIAL
Individual Investor Services
Altamira
Service bureau and
Distributor
N/A
N/A
Private Investment Management
N/A
Manufacturer and distributor

Successfully offering access to such a variety of products, services and professionals under a single banner is more than simply a question of economies of scale and diversification. Financial planning and wealth management call for a comprehensive approach matched by an offering of well-coordinated services. Very few financial institutions are able to do this as well as National Bank does in Quebec. That is one barrier we want to make insurmountable for most of our competitors.

Our wealth management strategy is firmly anchored in our branch network and our specialized distribution channels. Our branch representatives—financial services managers, personal bankers and financial planners—all play a part in marketing core products like our mutual funds and discount brokerage service. But when a client holds significant assets or demonstrates exceptional growth potential, our professional advisors at Wealth Management step in.

Our specialized distribution channels, the other key in our wealth management strategy, have the common advantage of not having to depend on the branches to acquire and serve their clients, many of whom are not involved in a traditional banking relationship. The Individual Investor Services division of National Bank Financial (NBF) and Altamira, whose activities are discussed below, are found in this category, along with our Wealth Management group. As for financial security, our subsidiary National Bank Financial Services is active in the sale of individual life insurance policies to our self-employed clients and in supplying group RRSPs (in partnership with Industrial-Alliance). This subsidiary relies on a sales force of 70 representatives.

Together, the members of National Bank's Wealth Management family oversee every aspect of personal investing as part of a coherent strategy that draws on their complementary nature and existing synergies and covers as wide a scope as possible in order to better serve target clienteles.

Assets Under Management or Administration, Revenues – Wealth Management
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	Assets under management or administration			Revenues		
	2003	2002	Change %	**2003**	2002	Change %
National Bank Financial	**38,098**	34,532	10	**408**	411	(1)
Correspondent Network	**31,434**	24,936	26			
National Bank Discount Brokerage	**7,186**	5,458	32	**37**	33	12
Securities brokerage	**76,718**	64,926	18	**445**	444	–
Natcan Investment Management	**24,541**	17,823	38	**36**	33	9
Trust services	**39,838**	40,917	(3)	**52**	50	4
National Bank Securities	**5,507**	5,160	7	**44**	44	–
Altamira	**4,527**	5,068	(11)	**61**	16	281
Mutual funds	**10,034**	10,228	(2)	**105**	60	75
Other	**4,217**	4,778	(12)	**20**	24	(17)
Gross total	**155,348**	138,672	12	**658**	611	8
Assets presented in more than one activity	**52,885**	46,168		**–**	–	
Net total (excluding deposits of individuals)	**102,463**	92,504	11	**658**	611	8

Revenues from all these units held steady or increased, except NBF(1) (-1%). Sixty-two percent of the segment's revenues or $408 million is attributable to NBF(1) operations. For its part, Altamira garnered $61 million in revenues in its first full year of operations within the National Bank group and contributed some $4.5 billion to assets. Trust services accounted for $39.8 billion in assets, down 3% from October 31, 2002, but saw its income rise $2 million (4%) during the fiscal year just ended. National Bank Discount Brokerage (NBDB) and Natcan contributed revenues of $37 million and $36 million respectively, for growth of 12% and 9% over fiscal 2002. NBDB accounts for close to $7.2 billion of the Wealth Management segment's portfolio of assets under management or administration.

(1) Including Individual Investor Services and the Correspondent Network

Securities Brokerage

Full-service brokerage

Full-service brokerage services, provided by Individual Investor Services of National Bank Financial (NBF), constitute the primary source of NBF's securities brokerage revenues. Retail brokerage services are available across Canada through a network of 96 branches and a complement of approximately 800 investment advisors. As the dominant full-service broker in Quebec, NBF has an estimated market share of 30%. The intensive recruitment of advisors in recent years has enabled the company to strengthen its presence outside Quebec. Brokerage revenues generated outside Quebec accounted for 37% of revenues in 2003. NBF's recruitment efforts are succeeding for several reasons including NBF's entrepreneurial environment, the growing reputation of the NBF brand in the Canadian market, the quality of the firm's research, and the sophisticated range of new issues and structured products available for distribution to NBF's retail client base.

The complete array of investment products and personalized advisory services available through the Individual Investor Services division are offered with a single focus in mind, namely, addressing clients' investment objectives. Investors may choose between transaction-based fee structures and comprehensive fixed fee structures, such as the Ambassador Portfolio Service. Under the Ambassador Portfolio Service, third-party specialized fund managers manage clients' assets. Through a subsidiary, NBF Financial Services, other services available include insurance and estate planning. Investment advisors work closely with banking and cash management specialists to offer investors seamless access to these products and services.

As is the case elsewhere in the organization, Individual Investor Services and the other divisions of NBF enjoy a mutually beneficial relationship. In a market that was generally characterized by caution and a wait-and-see attitude in 2003, NBF's ability to offer context-specific products was a key advantage. The Corporate Finance Group's enviable positioning with respect to income trusts, innovative structured products such as the Blue Chip GIC, and the leading role played by the bond trading desk enabled our advisors to maintain volumes given the popularity of these many products. A good indicator of this synergy is the measure of new issues as a percentage of commission revenue. In 2003, new issues generated 24% of commissions compared to 20% in 2002 and 6% in 2000.

National Bank Correspondent Network

The National Bank Correspondent Network (NBCN) division of NBF offers third-party clearing and brokerage services. More than 85 associated organizations staffed by some 5,000 financial advisors trade through NBCN for their 420,000 clients, making it Canada's leading provider of such services. The breadth of its correspondent services makes NBCN unique in Canada. For instance, the company offers accounting services, office support services and research products, while ensuring that independent advisors have access to new issues that would otherwise not be available to them.

In addition to its significant contribution to bottom and top line results, NBCN augments the performance of NBF by enabling NBF to maintain a highly competitive cost-per-trade pricing structure for capital market transactions and securities custody operations. The combined trading volume of NBCN, NBF and the Bank is among the largest in Canada. NBCN wields considerable distribution power, which has a favourable impact on NBF's equity and debt underwriting market share. NBCN serves as an additional distribution outlet for the Bank's investment and banking solutions.

Similar to the performance of the capital markets, the results for fiscal 2003 can be split into two fairly equal periods. The first half of the year proved very difficult as a result of the hangover from the financial scandals in 2002. In the latter half of the year, investor confidence was given a boost as stock markets posted solid gains. NBF's retail transaction revenues generated by Individual Investor Services and NBCN rose 15% to 25% in comparison to the same period a year earlier. For the year, revenues were down only 1% in 2003 versus 2002.

Assets under management or administration at NBF and NBCN increased 17%, from $59.5 billion to $69.5 billion. The growth rate in assets under management or administration for investors who deal directly with NBF was 10%, reaching $38.1 billion as at October 31, 2003. At NBCN, assets attributable to individual clients jumped 26% to $31.4 billion. These various growth rates resulted not only from stronger markets but also from the inflow of new funds. The fact that retail assets under management have progressed at such a steady rate during the past few years, despite particularly difficult conditions, is eloquent testimony to the value of active portfolio management and the services provided by investment advisors, who map out market-tailored strategies in line with the specific needs and goals of each investor.

Discount brokerage

National Bank Discount Brokerage (NBDB) ended its fiscal year surpassing its income objectives by 30%. Although the year got off to a difficult start with low trading volumes, the situation had stabilized by May. In this past year, assets under management finally posted strong growth, reaching $7.2 billion as at October 31, 2003. Sustained efforts to control costs together with process improvement helped to maintain the increase in operating expenses well below the level observed for income, thereby boosting productivity.

NBDB is perfectly aligned with the Bank's strategy to differentiate itself by providing quality service. In fact, for six quarters (February 2002 to July 2003), Dalbar, an independent research firm for the financial services industry, ranked NBDB first for the quality of its customer service. Investment agents' high proactivity and sound knowledge of products and financial markets are behind this success.

When the integration of Altamira Securities was finalized in September, NBDB recorded a 99% client retention rate. Keen emphasis was placed on making the integration transparent for the clients of Altamira Securities, allowing us to capitalize on the brand's prestige—part of our original acquisition strategy.

Another noteworthy achievement is the development of a corporate brokerage platform in association with National Bank Financial and the National Bank Correspondent Network. With this platform, NBDB will be able to offer its clients new functionalities superior to those of its competitors. NBDB will also distinguish itself by using voice recognition. Before the full launch, scheduled for the summer of 2004, several much-sought-after functionalities will be available. These will be rolled out as of December 2003.

Mutual Funds

The mutual fund industry became highly consolidated in 2003; in fact, the 10 largest companies now manage 70% of the industry's assets. It was in this context, with market uncertainty still looming large, that sales plummetted, as investors sought refuge in money markets and real estate. Substitutes to mutual funds, such as hedge funds, income trusts and tax shelters, also captured their attention.

While 2003 may have been a year of consolidation, it was also a rebound year. Stock markets recovered in the third quarter of 2003, marking the end of 14 consecutive negative quarters. The situation seems to have stabilized and the prospect of a market recovery, combined with generally positive economic conditions, led to increased mutual fund net sales in the fourth quarter.

National Bank Securities

Despite a year of substantial net redemptions in the mutual fund industry, National Bank Securities (NBS) posted neutral results, with negative net sales of only 0.1% of assets under management, or $6 million. By comparison, the five other major banks recorded negative net sales equal to 2.2% of their assets. Excluding money market funds intended for our institutional clientele, positive net sales were $238 million, the best performance in the industry. Long-term funds, for their part, grew 13% over fiscal 2002. Investors decided to sell their money market fund units and reinvest in long-term funds, demonstrating their confidence in a market recovery.

Launched in January 2002, Strategic Portfolios offer investors an optimum investment solution, where asset allocation is based on six investor profiles. Portfolios are automatically rebalanced every six months. As at October 31, 2003, accumulated assets in Strategic Portfolios amounted to over $780 million, or nearly one-third of National Bank's long-term funds—a progression in sales that has exceeded expectations.

Having successfully implemented its business development plan with advisors in the Bank's branch network and at National Bank Financial, in September 2003 NBS launched an outside development strategy for its family of funds. Now, in addition to being offered through the Bank's network and National Bank Financial, National Bank mutual funds can also be purchased from independent brokers. This market niche, which National Bank had previously left untapped, represents enormous growth potential.

Altamira

Our subsidiary Altamira continued its development efforts by taking full advantage of its excellent trademark and focussing its strategy on advisory services and investment solutions. On these fronts, Altamira can rely on unparalleled customer service. The Dalbar research firm ranked it first for the second consecutive year for service in English and for the fourth consecutive year for service in French.

To stress the fact that Altamira is the centrepiece for wealth management activities beyond the Quebec market, advisors were dispatched to four branches, and five other points of service are anticipated for fiscal 2004. In addition, the Altamira sales force has begun to distribute the Bank's products, notably structured investment certificates and mortgages.

Fiscal 2003 was also marked by the realization of cost synergies and the unification of fund management. In terms of synergies, substantial savings were generated from the merger of Altamira Securities with National Bank Discount Brokerage and the integration of Altamira's accounting, trust and custodial activities with those of the Bank at National Bank Trust. As for fund management unification, this was orchestrated around the merger of Altamira Management and Natcan Investment Management.

Investment Management

The year ended October 31, 2003 was very active for Natcan Investment Management, particularly because of the integration of its team of managers with Altamira's team. The year also saw the recruiting of a number of seasoned managers.

The integration, which was finalized on November 1 following Natcan's acquisition of Altamira Management Ltd., had several objectives. First, the Bank sought to strengthen the performance of the two families of funds (National Bank and Altamira funds) by entrusting portfolio management to the best resources in each organization. Second, the Bank deemed it important to review the management style of certain funds to better align them with today's financial markets and the tempered risk tolerance of many investors in recent years. Lastly, it was looking for significant cost savings from the synergies expected following the acquisition of Altamira.

Comparison of Mutual Fund Performance
Percentage in first and second quartiles

	National Bank		Altamira	
	% of funds	% of assets	% of funds	% of assets
One-year return	60%	82%	56%	52%
Three-year return	51%	78%	37%	39%

Source: GlobeHysales

As the above table shows, the recent integration has paid off: more than half of Altamira's funds and assets have achieved a one-year return as at October 31, 2003 which places them in the first and second quartiles, their performance being above average for the mutual fund industry. This ranking is remarkably better than that observed on a three-year investment horizon, for which less than 40% of the funds are in these quartiles. The objective is to swiftly elevate Altamira mutual funds to the same performance level as that of the National Bank's family of funds, for which close to 80% of assets are in funds ranked in the top two quartiles.

Natcan not only manages the mutual funds offered by the Bank and its subsidiaries, it also manages portfolios for other institutions, including the pension plans of various companies and the portfolios of many foundations and religious orders. Managed assets have grown significantly in recent years and today stand at more than $24 billion.

Trust Services

National Bank, through its subsidiary National Bank Trust, offers high value-added services to a wealthy clientele, including estate planning, financial planning and, of course, the creation and administration of trusts. Most recently, the Bank's offering of trust services was expanded to include an asset protection trust designed for executives for legal accountability purposes or for transferring a business from one generation to the next.

The trust services offered by the Bank posted excellent results with the Private Investment Management product. This discretionary management service is intended for upscale clients who, in their search for capital preservation, growth and tax effectiveness, entrust their assets to managers and experts with a disciplined investment approach who track markets and make day-to-day decisions on their behalf. This product is in line with National Bank's wealth management strategy and is one of the foundations for building its wealth management distribution network and business clientele.

During the past year, National Bank Trust significantly enhanced its service offering with the introduction of complementary securities, namely, high-yield bonds and preferred shares as well as hedge funds. Traditionally reserved for institutional clients, these instruments increase the potential return and diversification of investment strategies.

National Bank Trust has enlisted the services of Natcan Investment Management to act as advisor and lead manager. Managers with complementary styles have also been added to ensure the diversification sought by certain clients.

Results

Results by Business Segment – Wealth Management
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Net interest income	**91**	89	2
Other income	**567**	522	9
Total revenues	**658**	611	8
Operating expenses	**526**	506	4
Contribution	**132**	105	26
Provision for credit losses	**–**	1	–
Income before income taxes	**132**	104	27
Income taxes	**47**	35	34
Non-controlling interest	**4**	3	33
Net income	**81**	66	23
Average assets	**665**	769	(14)
Risk-weighted assets	**659**	739	(11)
Average deposits	**1,951**	1,654	18
Efficiency ratio	**79.9%**	82.8%	

All in all, the segment had $102 billion in assets under management or administration(1) and generated net income of $81 million in 2003, a 23% increase over fiscal 2002. Revenues were up 8%, to $658 million, 86% of which comes under other income. Operating expenses rose at the rate of 4%, half as much as income, to reach $526 million for the year ended October 31, 2003, and the efficiency ratio stood at less than 80%, an improvement of 2.9 percentage points compared with October 31, 2002.

(1) Excluding assets presented in more than one activity (an asset administered by NBS and managed by Natcan, for example)

Challenges and Strategies

Our wealth management strategy focusses on two major challenges. First, we need to increase the share of financial assets entrusted to us by our banking clientele. Second, we must utilize specialized networks to attract new clients, particularly outside our natural market.

To make this strategy work with our banking clientele, we require high-performing investment products and the ability to sell the right products to the right clients, paying special attention to their situation as well as their preferences. We will continue to make a clear distinction between the design and sale of our products. We are convinced that managed products, such as Strategic Portfolios and Private Investment Management, are suited to a large majority of consumers because they afford an optimum mix of return, security and ease of management. We will continue to apply various techniques to promote these investment solutions, particularly by increasing the presence of our sales force in the branches.

National Bank sees its role as that of an advisor, who makes recommendations to the best of its ability and is careful to avoid imposing specific products or distribution channels on its clients. Giving pride of place to investors' choices means that all our channels must perform well; in turn, these channels will appeal to a broader spectrum of clients than the Bank's traditional client base. This is especially true for National Bank Financial and Altamira, our linchpins for acquiring clients beyond the Quebec market, which must carry out a strategy that is to some degree integrated with the Bank's strategy for its banking clientele, but also stands apart.

To ensure this strategy's effectiveness, each unit and each subsidiary is pursuing its own objectives. The trend of the last months of fiscal 2003 should provide a strong foundation for the growth of these activities.

Full-service brokerage activities at National Bank Financial are expected to generate considerably higher revenues and profits, especially as the full impact of the fixed-cost reductions introduced in 2003 are felt. The key challenge will be to take advantage of the current upturn to strengthen the client-advisor relationship. Efforts to get clients to switch to programs where fees are tied to asset volumes should also be stepped up. This approach to managing has the dual advantage of stabilizing the company's revenues and fostering greater trust between investors and their advisors. Lastly, in keeping with the strides made this past year, we will continue to capitalize on synergies with a view to offering investment solutions that are in line with the latest industry developments.

Having successfully completed the integration and streamlining phase, Altamira is now focussed on realizing its growth potential and coordinating its efforts with those of the Bank. To leverage this growth environment, Altamira will be drawing on the effectiveness of its direct distribution model and its proven ability to forge long-term relationships with clients. The Bank will work hard to make this value-added advisory expertise available to its clientele outside Quebec, which until now was rarely solicited for the sale of wealth management products. Posting advisors in the branches will be one method of providing these clients with quality service. We will continue to aim for high and sustained performance of the various funds, a key to success with direct sales of mutual funds.

At National Bank Securities (NBS), converting money market funds to Strategic Portfolios will remain an ongoing concern, but at the same time we will be diligent about ensuring the success of the new outside distribution structure, the Advisor Series, which enables independent financial advisors to sell all NBS mutual funds. This initiative was formalized by the signing of agreements with TD Waterhouse, *Avantages Services Financiers*, the PEAK Financial Group, BBA Investments, *Le Groupe financier Everest*, Desjardins Securities and other well-known brokerage firms. National Bank, which is relying on the quality customer service provided by NBS to make inroads into the independent market, has thus become one of the first financial institutions in Quebec to make its family of mutual funds available to such a large group of financial experts.

The challenges facing Wealth Management are many. First and foremost, it must continuously strive to win over share of wallet, in other words, manage a larger portion of the savings of every existing client. The selection of new clients to target is a formidable task, but databases with improved structuring will be of some help. Using this system and updated segmentation, we will be able to reach out to many more clients. Relations with the other business units of the Bank also need to be revisited, as National Bank Financial's Corporate Services and Individual Investor Services divisions are both in a position to refer valuable clienteles.

FINANCIAL MARKETS

The Financial Markets segment oversees all the brokerage and financing services which National Bank and National Bank Financial offer corporate and institutional clients, as well as the investment and trading operations carried out on the Bank's own behalf.

Revenues – Financial Markets
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Institutional brokerage	**563**	553	2
Treasury	**368**	276	33
Total	**931**	829	12

In 2003, this segment recorded overall growth in income of 12%, the result of a 33% increase in revenues at Treasury and a modest 2% increase in revenues from institutional brokerage activities.

The results posted by Treasury are primarily attributable to trading operations, for which revenues were up 145%. This performance was evident across the board, with all types of activities more than doubling their income. These increases were fuelled by an upward trend in bond and stock markets, which favoured risk-taking, and the highly volatile U.S. dollar in recent months, which resulted in substantial gains on currency trading. Moreover, the Bank significantly expanded its commodities and precious metal trading activities following the addition of an expert team specialized in forest product derivatives. The diversity and strength of sources of growth in 2003 and the quality of our trading teams, both at Treasury and National Bank Financial, are further proof of this segment's ability to make a significant contribution to the Bank's results year after year.

Revenue Breakdown – Financial Markets
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Interest rate	**131**	64	105
Equities	**145**	63	130
Commodity, precious metal and currency contracts	**96**	25	284
Trading revenues	**372**	152	145
Banking services	**169**	199	(15)
Capital market fees	**232**	221	5
Asset/liability management	**80**	111	(28)
Gains on investment securities	**27**	57	(53)
Other(1)	**51**	89	(43)
Total	**931**	829	12

(1) Primarily net interest income

In contrast, conditions in 2003 were much less favourable for asset and liability management activities than in 2002, when interest rates—especially short-term rates—had been low. Consequently, the Bank's gains on investments were down, both for exchange-traded securities and risk capital investments.

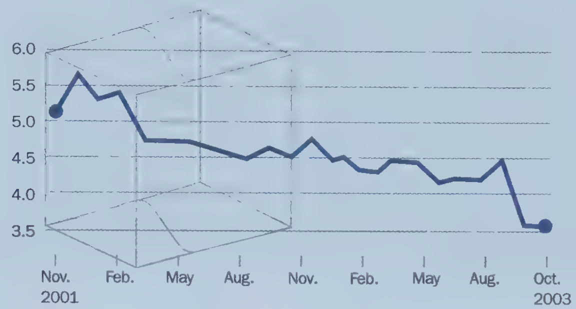
National Bank Financial is one of the top six securities brokerage firms in Canada, and the undisputed industry leader in Quebec. Since 2002, it has also provided banking services geared to private and public sector corporations so as to present an integrated service offering to these clients, who are very active on capital markets. National Bank Financial has succeeded in carving out enviable niches in the Canadian market and has been a dominant player, for over a decade, in the market for government bonds, particularly at the provincial and municipal levels. In recent years, National Bank Financial has also been one of the leading issuers of income trusts, a market that is currently booming.

One of the main strengths of this subsidiary is its exceptional distribution capacity, which greatly enhances its underwriting services, be it for debt or equity securities. In terms of its Individual Investor Services, National Bank Financial boasts

an extensive network of full-service brokers in Canada, and indirectly serves an additional 420,000 clients through its Correspondent Network. Institutional investors, for their part, are served by the Institutional and Corporate Services division's fixed-income and equities trading desks. This extensive sales network is ably supported by a research department that consistently ranks among the best in the country.

Like retail brokerage services, whose results were discussed in the Wealth Management section, 2003 was not an easy year for Institutional and Corporate Services at National Bank Financial and for the industry as a whole. A sluggish North American economy, jittery stockholders and the drop in business investments all had an adverse effect on corporate financing revenues. This weak demand for financing also resulted in a 30% decline in loan and acceptance volumes with private and public sector corporations.

Assets – Corporate Financing
(billions of dollars)



By contrast, the bond market was extremely active as lower interest rates prompted businesses to look to it rather than banks or the stock market for financing, at least in the first half of the year. This strong demand and the quest for absolute returns led to narrower risk premiums on the bond market. These factors created an extremely favourable environment for fixed-income operations, translating into a 29% year-over-year increase in revenues, some of which was attributable to the mandates obtained by National Bank Financial to manage provincial bonds for Nova Scotia and Manitoba.

Insofar as Putnam Lovell specializes in providing merger and acquisition advisory services to financial institutions, a sector which was particularly hard hit in 2003, the results of this newly acquired subsidiary fell short of expectations. However, aggressive measures were immediately taken, including scaling back the New York institutional equities desk and cutting costs by an additional $25 million throughout the firm. The full impact of these measures will be felt in 2004.

The Bank's Treasury is responsible for managing most of the Bank's own operations as well as hedging operations for clients. These activities include financing the Bank, managing liquid assets, investing, trading on currency and derivative markets, asset/liability management and overseeing external traders. In most of the markets on which it is active, Treasury trades for both client accounts and the Bank's own account, on an equal basis.

Treasury has some 20 profit centres, which reflects the diversity of its operations. The purpose of this diversification is twofold: to maintain leading-edge expertise in the various markets, and to minimize the capital needed by diversifying product and market risks to the Bank's advantage. As financial markets offer different opportunities depending on the stage of the economic cycle and the specific features of each instrument, the results generated by each particular revenue stream can vary quite widely. The management style used by the Bank allows it to seize these opportunities as they arise, to allocate capital accordingly and thereby minimize the overall volatility of results despite the volatility inherent in each market.

By actively managing the capital allocated to the various trading desks and closely monitoring risks and positions, we can take full advantage of market upswings and quickly withdraw during market downturns. In this way, we keep the volatility of results asymmetrical, with occasional peaks in an otherwise steady continuum of positive results, much of which come from third-party transactions with minimal risk for the Bank. The key is to apply the latest expertise to complex markets in such a way as to take quick preventive action in the event of losses, while allowing gains to accrue.

At National Bank, the Financial Markets segment is closely tied to operations through its sophisticated products—not only those traditionally reserved for institutions, but also those offered to individual clients. Our hedge fund-linked notes are a prime example, the hedge fund being supported by an external traders program. Traders are selected based on their management style and performance record to obtain a return that is not closely pegged to stock and bond markets. This diversified product is all the more attractive as the capital is guaranteed by the Bank. Therefore, the Bank can create value at every stage of the process, from the selection and follow-up of managers and the structuring of returns to the development and distribution of the product, which is geared to both our branches' and our brokers' clients.

Results

Results by Sector of Activity – Financial Markets
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Net interest income	**186**	321	(42)
Other income	**745**	508	47
Total revenues	**931**	829	12
Operating expenses	**527**	416	27
Contribution	**404**	413	(2)
Provision for credit losses	**39**	39	–
Income before income taxes	**365**	374	(2)
Income taxes	**130**	133	(2)
Net income	**235**	241	(2)
Average assets	**37,819**	37,067	2
Risk-weighted assets	**16,020**	16,348	(2)
Average deposits	**17,416**	19,553	(11)
Net impaired loans	**107**	36	197
Efficiency ratio	**56.6%**	50.2%	

Despite higher revenues, the Financial Markets segment recorded slightly lower net income, which declined 2% from $241 million to $235 million. Productivity was down owing to a 27% increase in costs, attributable mainly to variable compensation and the inclusion of one full year of expenses at Putnam Lovell. Despite a $71 million increase in net impaired loans due to a few accounts, the provision for credit losses, based on the loss experience for a full economic cycle, held steady at $39 million.

Challenges and Strategies

National Bank Financial has acquired the necessary means to become one of Canada's leading brokerage firms. Top-calibre personnel has been recruited in recent years, not just in Toronto and Montreal, but in Western Canada as well. In terms of expenses, the $25 million in savings to be generated by the measures introduced in the summer and our withdrawal from unprofitable business lines should boost productivity in 2004. With respect to revenues, the situation improved dramatically in the second half of 2003, both in terms of fee income and the number of equity financing or M&A mandates. Should capital markets continue trending upward, National Bank Financial should post even stronger profits.

Treasury, for its part, pursued its diversification strategy. New activities, such as credit derivatives, have been added, but not before carefully examining every aspect of the risks involved. Management of third-party funds should grow in importance as individual investors return to capital markets. We have noticed increasing demand for products with absolute returns, i.e., where the main risk factors are covered so that the product is unlikely to yield negative returns. The Bank intends to remain a front-runner in the development and marketing of such products.

INSTITUTIONAL AND CORPORATE FINANCING ACTIVITIES AT NATIONAL BANK FINANCIAL

Corporate financing

Offer private and public corporations a comprehensive range of banking services, merger and acquisition advisory services and capital market financing.

Positioning

- Ranked among the top players in Canada
- The main business bank among corporations and governments in Quebec
- Active internationally in merger and acquisition advisory services within the financial sector via Putnam Lovell
- Highest participation rate among syndicates for new share issues in 2003

Fixed income

Manage and distribute new issues and actively participate in Canada's secondary bond market and the money market through offices in Montreal, Toronto, Vancouver, New York and London.

- One of the key players in Canada
- Ranked first for municipal bonds
- Ranked first for provincial bonds

INSTITUTIONAL AND CORPORATE FINANCING ACTIVITIES AT NATIONAL BANK FINANCIAL (cont.)

Institutional equities	*Mission* Distribute new issues and actively participate in the secondary equities market for institutional investors. *Positioning* · Recognized for the quality of its research team
Market maker	*Mission* Participate directly and actively in the secondary equities and derivatives market on Canadian exchanges. *Positioning* · Largest market maker in Canada · Dominates the Montreal Exchange derivatives market
Research	*Mission* Track changes in markets, industries and businesses with a view to formulating investment strategies, supporting income producers and guiding investors. *Positioning* · Ranked among the best teams in Canada for the quality of its research and investment ideas · Highest ratio of star analysts

OTHER

The "Other" heading presents data on securitization operations, gains on the sale of activities, discontinued operations and non-recurring items such as the revaluation of investments. It includes revenues and expenses that are not allocated to any one specific segment. Net interest income was negative because it included interest paid to third parties on securitization operations, whereas a gain at the time of the transaction and subsequent management fees were posted to other income.

Results by Sector of Activity – Other
Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002
Net interest income	**(159)**	(127)
Other income	**152**	19
Total revenues	**(7)**	(108)
Operating expenses	**49**	5
Contribution	**(56)**	(113)
Provision for credit losses	**(69)**	231
Income before income taxes	**13**	(344)
Income taxes	**12**	(99)
Non-controlling interest	**23**	27
Discontinued operations	**2**	111
Net income	**(20)**	(161)
Average assets	**(5,492)**	(6,881)
Risk-weighted assets	**(1,840)**	(2,656)
Average deposits	**(180)**	(294)
Net impaired loans	**(402)**	(403)

For fiscal 2003, the net loss for the "Other" heading was $20 million as against a net loss of $161 million in 2002. Total revenues were $101 million higher mainly because of an impairment charge on an investment recorded last year. The favourable $300 million variance in the provision for credit losses was primarily due to the revision of the estimated allowance of $185 million recorded in 2002, $120 million in losses for the telecommunications sector, the $30 million reduction in the general allowance for credit risk and the difference between the expected losses charged to the business units and the actual losses incurred. These favourable variances were offset in part by the $111 million net gain recorded in 2002 under "Discontinued operations" generated by the sale of U.S. asset-based lending operations.

FINANCIAL ANALYSIS
ANALYSIS OF CONSOLIDATED INCOME

Revenues

Revenues on a taxable equivalent basis for fiscal 2003 totalled $3,459 million, up $345 million or 11%. Other income accounted for 61% of total revenues in 2003, compared to 53% in fiscal 2002. The increase in the proportion of other income is chiefly attributable to the strong performance of trading activities in 2003, as well as the impairment charge recorded on an investment in 2002.

Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Net interest income			
Personal and Commercial	**1,248**	1,190	5
Wealth Management	**91**	89	2
Financial Markets	**186**	321	(42)
Other	**(159)**	(127)	(25)
	1,366	1,473	(7)
Other income	**2,093**	1,641	28
Total revenues	**3,459**	3,114	11
Other income as a % of total revenues	**61%**	53%	
Average assets	**71,671**	69,292	
Interest margin	**1.91%**	2.13%	

Net interest income
For fiscal 2003, net interest income was $1,366 million, versus $1,473 million in the previous year. The Personal and Commercial segment recorded net interest income of $1,248 million, a 5% increase, primarily because of an improved interest margin, which rose from 3.10% of average assets in 2002 to 3.23% in 2003. The interest margin on loans and term deposits improved in 2003, while the prevailing low interest rate environment substantially narrowed the interest margin on transaction deposits. In the Financial Markets segment, net interest income was down $135 million to $186 million due to the cost of financing trading account securities and interest on index-linked deposits, while revenues from these activities are generally recorded in other income. For the "Other" heading, net interest income declined $32 million as a result of securitizations and reduced income on capital not allocated to business units as a result of the normal course issuer bid for the repurchase of shares.

Other income
Totalling $2,093 million in 2003, other income was up 28% or $452 million over the previous year.

Year ended October 31
(taxable equivalent basis)
(millions of dollars)

	2003	2002	Change %
Capital market fees	**544**	539	1
Trading revenues	**381**	123	210
Gains (losses) on investment account securities	**1**	(98)	–
Lending and deposit fees	**505**	477	6
Securitization revenues	**204**	204	–
Trust services and mutual funds	**210**	160	31
Foreign exchange revenues	**66**	67	(1)
Other	**182**	169	8
Other income	**2,093**	1,641	28
Trading revenues			
Net interest income	**3**	51	
Other income	**381**	123	
	384	174	121

Capital market fees, at $544 million in 2003, or one-quarter of other income, were stable compared to the previous year. The uncertainty prevailing on stock markets at the start of the year dampened the enthusiasm of individual investors, who cut back on the number of their trades. The stock market recovery at the end of the fiscal year, especially during the fourth quarter, resulted in renewed investor interest that translated into higher revenues for both full-service and online brokerage.

Furthermore, the Bank capitalized on market opportunities to significantly increase its revenues from trading activities. As a result, total trading revenues, including net interest income, amounted to $384 million in 2003, a jump of 121% over the $174 million recorded in 2002.

For the year ended October 31, 2003, the Bank posted a $99 million increase in gains on securities, notably due to a $137 million loss recorded in 2002 on the revaluation of an investment.

Lending fees, including credit service revenues, and deposit fees grew 6% in 2003 to total $505 million. This increase was chiefly due to insurance product revenues and commercial lending fees.

Finally, trust service and mutual fund revenues rose 31% on account of the contribution resulting from the acquisition of mutual fund manager and distributor Altamira in the fourth quarter of 2002.

Operating Expenses

Operating expenses for fiscal 2003 were $2,259 million, as against $2,040 million in 2002, an increase of $219 million or 11%. Operating expenses for 2003 included expenses for one full year of operations at Putnam Lovell and Altamira, both of which were acquired during the previous fiscal year. If the additional operating expenses of approximately $83 million attributable to these acquisitions were excluded, expenses would have increased 7% in 2003. Nearly one-quarter of the remaining increase resulted from the rise in variable compensation at Treasury due to substantial revenue growth.

Year ended October 31 *(millions of dollars)*	2003	2002	Change %
Salaries and staff benefits	**1,287**	1,147	12
Occupancy costs, computers and equipment	**504**	496	2
Professional fees	**112**	99	13
Other expenses	**356**	298	19
Operating expenses	**2,259**	2,040	11
Efficiency ratio	**65.3%**	62.8%(1)	

(1) *Excluding the impairment charge taken on an investment in 2002*

The efficiency ratio went from 62.8% in 2002 to 65.3% for the year ended October 31, 2003.

Representing 57% of total operating expenses, salaries and staff benefits were $1,287 million for fiscal 2003, up 12% over 2002. Of the $140 million increase compared to the previous year, 40% was attributable to salary expense stemming from the acquisitions and approximately 20% to the increase in variable compensation as a result of revenue growth. The balance of the increase can be traced to the annual salary adjustment and the higher cost of staff benefits, notably pension plan expense, which was $14 million higher than in 2002, totalling $32 million in 2003.

Occupancy costs, computers and equipment, amounting to $504 million in 2003, were up only 2% over the previous year. Given that the companies acquired in 2002 added $13 million, occupancy costs, computers and equipment for the Bank's other activities were down slightly. Professional fees were up 13% to $112 million. Almost half of the increase was derived from the addition of the companies acquired in 2002 for one full year. The balance was primarily attributable to fees related to partnership programs. Aside from an additional $12 million related to the 2002 acquisitions, the $58 million increase in other operating expenses was due primarily to an additional provision for the Gold credit card promotional program and an increase in the capital tax.

Provision for Credit Losses

The Bank recorded a significant drop in its provision for credit losses for fiscal 2003. In 2002, credit losses stood at $490 million. This exceptionally high level was chiefly owing to a $185 million charge justified by the revaluation of portfolios of impaired loans to individuals, small business and commercial loans, but also by losses of $120 million related to corporate loans in the telecommunications sector. Finally, the increase in the "Other" heading was caused by the reversal of $30 million from the general allowance for credit risk in 2002. For fiscal 2003, credit losses were down 64% to $177 million, and represented no more than 0.45% of average loans and acceptances, versus 1.28% for the previous fiscal year.

Year ended October 31 (millions of dollars)	2003	2002	Change %
Individuals and small business	**61**	186	(67)
Commercial and real estate	**53**	174	(70)
Corporate	**64**	173	(63)
Other	**(1)**	(43)	
Provision for credit losses	**177**	490	(64)
As a percentage of average loans and acceptances	**0.45%**	1.28%	

Income Taxes

Note 16 to the consolidated financial statements on page 106 gives a breakdown of the Bank's income taxes. Income taxes in 2003 were $277 million, for an effective tax rate of 30.0%, compared to 30.1% for the previous year.

Discontinued Operations

The heading "Discontinued operations" includes net income from the commercial lending activities in the United States sold in January 2002. For fiscal 2002, a $111 million gain was recognized; the finalizing of the sale of these operations generated a $2 million gain for fiscal 2003.

ANALYSIS OF CONSOLIDATED BALANCE SHEET

The Bank's total assets were up $7.8 billion or 10% to $82.4 billion as at October 31, 2003, compared to $74.6 billion at the end of the previous year.

As at October 31 (billions of dollars)	2003	2002	Change %
Assets			
Cash resources	**7.1**	6.9	3
Securities	**26.2**	20.1	30
Loans	**42.3**	40.8	4
Acceptances	**3.3**	3.0	10
Other	**3.5**	3.8	(8)
	82.4	74.6	10
Liabilities and shareholders' equity			
Deposits	**51.5**	51.7	–
Acceptances	**3.3**	3.0	10
Other	**21.6**	13.9	55
Subordinated debentures	**1.5**	1.6	(6)
Non-controlling interest	**0.4**	0.5	(20)
Shareholders' equity	**4.1**	3.9	5
	82.4	74.6	10

Cash Resources

Cash resources, comprised primarily of deposits with financial institutions, were $7.1 billion as at October 31, 2003 compared to $6.9 billion a year earlier, or growth of 3%. A description of the Bank's liquidity management practices is presented on page 61 of the Annual Report.

Securities

Representing close to one-third of total assets, securities amounted to $26.2 billion as at October 31, 2003, for a 12-month increase of $6.1 billion or 30%. Investment account securities, i.e., those generally held long term, represented $7.0 billion as at October 31, 2003, up 2% since the previous fiscal year-end. Trading account securities posted the largest increase during fiscal 2003, reaching $19.2 billion at the end of the year, versus $13.2 billion a year earlier, for 45% growth. Well-managed trading activities are increasingly being seen as a value driver. The Bank ensures that its trading activities are diversified, while capitalizing on the potential of specialized niches. The Bank's market risk management policies are described on page 59 of the Annual Report.

Loans and Acceptances

Loans and acceptances represent the largest category of assets at the Bank, accounting for 55% of total assets. As at October 31, 2003, the $45.6 billion of loans and acceptances were up 4% over the same date a year earlier.

Representing 31% of loans and acceptances, residential mortgage loans grew 9% to total $14.0 billion as at October 31, 2003, compared to $12.9 billion a year earlier. Almost 55% of this increase was attributable to more sustained activity on the housing market, especially in Quebec. The remainder of the increase was due to a lower volume of securitized mortgages compared to 2002.

Personal loans and credit card receivables totalled $6.1 billion at the end of fiscal 2003, compared to $5.6 billion a year earlier. Credit card receivables, at $1.5 billion before securitization, were up 10% over October 31, 2002, and consumer loans, at $4.9 billion before securitization, were up 3% from the previous year, in spite of the Bank's withdrawal from the indirect consumer loan niche. Excluding this last type of loan, consumer loans would have grown by 8%.

Loans and acceptances to business and government accounted for nearly half of loans and acceptances as at October 31, 2003. At $21.6 billion, they were down $1.3 billion, primarily due to corporate loans and acceptances. Table 10 on page 71 shows that loans are well diversified by type of industry. The breakdown of loans by industry is substantially unchanged, except for manufacturing loans, which accounted for 7.6% of all loans as at September 30, 2003, compared to 12.2% as at the same date in 2002.

Finally, securities purchased under reverse repurchase agreements were up sharply by $1.6 billion to total $4.0 billion as at October 31, 2003. Although they are part of loans, these assets are comparable to liquid securities.

Net impaired loans

Net of specific and general allowances, impaired loans were negative $154 million as at October 31, 2003, compared to a negative balance of $159 million as at October 31, 2002, a slight 3% increase.

As at October 31 *(millions of dollars)*	2003	2002	Change %
Individuals	**17**	38	(55)
Small businesses	**29**	24	21
Individuals and small businesses	**46**	62	(26)
Commercial	**68**	99	(31)
Real estate	**27**	47	(43)
Business	**95**	146	(35)
Corporate	**107**	36	197
Other	**3**	2	50
Impaired loans, net	**251**	246	2
General allowance	**(405)**	(405)	–
Impaired loans, net of specific and general allowances	**(154)**	(159)	3

Gross private impaired loans totalled $454 million as at October 31, 2003, representing 13% of tangible capital and allowances, as against 14% a year earlier.

Net impaired loans declined 26% in the individuals and small business segments to $46 million at year-end. Impaired commercial loans stood at $68 million, a 31% decrease from 2002. Net impaired loans in the real estate segment were down 43% to $27 million. These reductions are indicative of good financial health among individuals and businesses and the prudence of the Bank's policy of limiting its loans to the real estate segment.

Net impaired loans tripled in the corporate segment to $107 million as at October 31, 2003, mainly because of a few accounts in the steel sector.

A detailed description of risk management practices is presented on page 57 of the Annual Report.

Other Assets

Other assets, at $3.5 billion as at October 31, 2003, were down 8% from the corresponding date in 2002. The decrease is the result of the planned sale of the remainder of U.S. commercial loans that had been classified as assets held for disposal.

Deposits

Deposits, which totalled $51.5 billion as at October 31, 2003, were relatively stable compared to the previous year. Personal deposits, which represented 46% of total deposits, were up 4% to $23.5 billion. A breakdown of total personal savings appears on page 51 of the Annual Report.

Commercial deposits have risen 9% since October 31, 2002 to $15.5 billion. During the year, the Bank made efforts to enhance its service to exclusive commercial depositors in order to grow deposit volumes.

The increase in personal and commercial deposits was offset by a decrease in purchased funds.

Other Liabilities

Comprised chiefly of commitments related to securities sold short and securities sold under repurchase agreements, other liabilities were up $7.7 billion compared to year-end 2002 to $21.6 billion as at October 31, 2003. The increase is attributable to trading activities.

Subordinated Debentures and Non-Controlling Interest

No subordinated debentures matured during fiscal 2003; the fluctuation in the balance as at October 31, 2003 was derived only from the change in the foreign currency translation rate.

Non-controlling interest is composed primarily of US $300 million in preferred shares issued by a wholly owned subsidiary of the Bank. The decline in the Canadian dollar balance, from $486 million as at October 31, 2002 to $398 million as at October 31, 2003, can essentially be traced to the appreciation of the Canadian dollar.

Shareholders' Equity

As at October 31, 2003, shareholders' equity totalled $4.1 billion, compared to $3.9 billion a year earlier. The components of shareholders' equity are provided in the Consolidated Statement of Changes in Shareholders' Equity, which appears on page 84 of the Annual Report.

During fiscal 2003, the Bank repurchased 9.1 million of its common shares under a normal course issuer bid at a cost of $298 million, $82 million of which was applied against capital stock, with the remaining $216 million allocated to retained earnings. In addition, on May 15, 2003, the Bank redeemed all of its Series 12 preferred shares for $125 million.

These reductions in shareholders' equity were partially offset by the issuance of $200 million of Series 15 preferred shares, as well as by the net contribution from the year's income, less dividends on preferred and common shares.

Regulatory Capital

The Tier 1 and total capital ratios calculated according to the standards of the Bank for International Settlements and the Superintendent of Financial Institutions Canada were 9.6% and 13.4% respectively as at October 31, 2003, versus 9.6% and 13.6% as at October 31, 2002. During fiscal 2003, risk-weighted assets varied little on account of weak growth in commercial loans, especially corporate loans. Furthermore, the increase in regulatory capital attributable to available net income for the year was reduced in large part by the common share repurchase program and the lower value of innovative instruments once translated into Canadian dollars.

Capital management standards and procedures are explained in more detail on pages 63 and 64 of the Annual Report.

ANALYSIS OF OFF-BALANCE SHEET ITEMS

In addition to the assets and liabilities that appear on the balance sheet, the Bank manages assets for its clients that are not recorded on the balance sheet. These off-balance sheet items include derivatives and other instruments for the purpose of risk management and efficient use of capital.

Assets Under Administration and Assets Under Management

Table 9 on page 71 of the Annual Report illustrates assets under administration and under management. As at October 31, 2003, these items totalled $155 billion, for a one-year $17 billion increase.

Client assets administered by the brokerage subsidiary National Bank Financial posted the largest gains, accounting for $10 billion of the $17 billion growth. The rest of the increase was mainly attributable to the fact that Natcan Investment Management now manages some of the Altamira mutual funds.

As part of its wealth management market strategy, the Bank aims to increase the amount of savings it administers for these clients. At the end of fiscal 2003, savings administered were up $6.8 billion to total $75 billion.

As at October 31
(billions of dollars)

	2003	2002	Change %
Deposits	**23.5**	22.6	4
Full-service brokerage	**35.8**	32.3	11
Mutual funds	**7.6**	7.2	6
Online brokerage	**6.2**	4.6	35
Other	**1.9**	1.5	27
Total savings	**75.0**	68.2	10

The assets of National Bank Financial clients accounted for almost half of the savings administered by the Bank, and bank deposits, one third. The stock market recovery during the second half of the year and the drop in interest rates explain the growth in savings entrusted to the Bank.

Special Purpose Entities

The Bank uses special purpose entities chiefly to securitize financial assets in order to obtain funding, reduce credit risk and manage capital. From time to time, the Bank acts as an intermediary for clients who want to use special purpose entities to securitize their financial assets.

The Canadian Institute of Chartered Accountants issued a guideline concerning variable interest entities (AcG-15) which will take effect, for the Bank, at the beginning of fiscal 2005. The Bank is currently assessing the impact of this guideline on its consolidated financial statements.

National Bank's securitization programs
Securitization involves selling receivables to a trust, which funds the purchase by issuing term bonds or commercial paper. Sales of receivables are most often accompanied by a credit enhancement, so that the bonds or commercial

paper benefit from higher credit ratings. This enhancement takes the form of first loss protection at the expense of the party selling the receivables, and second loss protection assumed by a third party. First loss protection usually includes two elements: first, the excess interest, i.e., the difference between interest received on the debt and interest due to investors plus expenses related to the securitization program in question; second, an escrow account deposit. Second loss protection may be assumed directly by a loan guarantor, or indirectly by a subordinate class.

Securitization programs often feature interest exchange agreements and liquidity guarantee arrangements in order to guarantee, respectively, interest payments and payment of principal to investors. It should be noted that in Canada, liquidity guarantees, which are always an integral part of commercial paper programs, do not offer protection against credit risk for the underlying receivables; these liquidity guarantees can be invoked only if, following a disruption of financial markets, the trust that issued the commercial paper cannot meet principal maturities through new commercial paper issues. The seller of the receivables is frequently the administrator as well.

Asset securitization at National Bank

National Bank has set up four securitization programs for its own assets: Canadian Credit Card Trust, Vision Trust, Motion Trust and DPL Trust. The Bank also participates in two CMHC securitization programs: NHA Mortgage-Backed Securities and Canada Mortgage Bonds. These programs exist to provide funding, transfer risk and manage capital.

In all the securitization programs for its own assets, National Bank acts as the servicer of the receivables sold and, if necessary, also provides first loss protection. Furthermore, it also administers the securitization programs and ensures that all related procedures are carefully followed, and that investors are paid according to the provisions of these programs. Depending on the program, the Bank may also be asked to act as counterparty in interest exchange agreements and liquidity guarantee arrangements.

A detailed description of the asset securitization programs of National Bank is given below.

Securitization of credit card receivables

As at October 31, 2003, National Bank had sold to Canadian Credit Card Trust ("CCCT") a credit card receivables portfolio representing receivables outstanding of $1.4 billion, of which $1.1 billion was financed by the issue of three certificates sold to third parties and $0.3 billion through the participation of National Bank.

National Bank provides first loss protection, consisting of two elements: interest spread and an escrow account deposit. Second loss protection in this instance takes the form of a guarantee offered by a third party and corresponds to 5% of the amount of the certificates or $55 million. This securitization program does not feature interest exchange agreements or liquidity guarantee arrangements.

Securitization of uninsured mortgage loans on residential properties with five or more units

The Bank has securitized a portfolio of uninsured mortgage loans on residential properties with five or more units. This commercial paper program, in the name of Vision Trust, represented outstandings of $443 million as at October 31, 2003. First loss protection, which is provided by National Bank, includes the net interest spread (1.05% of commercial paper outstanding) and an escrow account deposit. The guarantor of second loss protection is at risk to the extent of 8.15% of commercial paper outstanding.

This program features liquidity guarantee arrangements and an interest exchange agreement for which National Bank assumes 75% and 100% respectively of the inherent risks.

Securitization of consumer loans

National Bank has set up two securitization programs for its consumer loans: Motion Trust and DPL Trust, totalling $145 million and $515 million respectively as at October 31, 2003.

Motion Trust, which pools indirect automobile loans, is a commercial paper program in which first loss protection takes the form of excess interest (2%) and an escrow account deposit. A subordinate class (3%) sold to third parties provides second loss protection. This program features both a liquidity guarantee arrangement and an interest exchange agreement assumed by National Bank to the extent of 75% in the first instance and 100% in the second.

The three series of certificates issued by DPL Trust are backed by a portfolio of direct consumer loans. For each senior certificate in a given series, there is a junior certificate subordinate to it that represents 3% of the senior certificate. In addition, the first loss protection takes the form of an interest spread (3%) and an escrow account deposit. An interest exchange agreement, assumed by National Bank, completes the program.

NHA Mortgage-Backed Securities and Canada Mortgage Bond programs
The Bank participates in the NHA Mortgage-Backed Securities (NHA-MBS) program and, since its inception in June 2001, has participated in the Canada Mortgage Bond (CMB) program. Under the CMB program, lenders sell NHA securities to Canada Housing Trust (CHT), which finances the purchase through the issue of mortgage bonds guaranteed by Canada Mortgage and Housing Corporation (CMHC). Moreover, these mortgage bonds feature an interest exchange agreement under which a CMHC-certified counterparty pays CHT the interest due to investors and receives interest on the NHA securities.

As at October 31, 2003, NHA securities outstanding issued by National Bank and sold to third parties totalled $3 billion. Furthermore, the Bank is the counterparty for the interest exchange agreements for the NHA securities sold to CHT that arise from National Bank mortgage loans.

The NHA-MBS program and the Canada Mortgage Bond program do not use liquidity guarantee arrangements. Finally, in conformity with the NHA securities program, National Bank advances the funds required to cover late payments and eventually obtains reimbursement, as the case may be, from CMHC or GE Capital depending on which entity insured the loan in default.

Impact of securitization programs on regulatory capital ratios
Since NHA mortgages have a weighting factor of 0% and substantially all of the NHA securities issued by the Bank are backed by CMHC-insured mortgages, it follows that the sale of NHA-MBS issued by the Bank has no impact on the Bank's risk-weighted assets and, consequently, on regulatory capital ratios. However, the CCCT, Vision Trust, Motion Trust and DPL Trust programs have an impact on the Bank's capital ratios, since the underlying assets have a weighting factor of 100%.

CRITICAL ACCOUNTING POLICIES

A summary of the significant accounting policies used by the Bank is presented in Note 1 to the consolidated financial statements on page 86 of the Annual Report. Certain of these accounting policies are considered critical because they are important to the presentation of the Bank's financial condition and operating results, and require difficult, subjective and complex judgments and estimates because they relate to matters that are inherently uncertain. Change in these judgments and estimates could have a material impact on the financial statements of the Bank. The Bank's critical accounting policies are listed below.

Allowance for Credit Losses

The allowance for credit losses reflects Management's best estimate as at the balance sheet date of probable credit-related losses in balance sheet and off-balance sheet financial instruments, primarily loans, deposits with other banks, loan substitute securities, derivative products, acceptances and other indirect credit commitments such as letters of credit and letters of guarantee. Management reviews portfolio credit quality on an ongoing basis to ensure the adequacy of the allowance for credit losses.

In assessing the adequacy of the allowance for credit losses, Management must use its judgment in establishing reasonable assumptions and subjective and significant estimates concerning the probability of default, probable losses in the event of default, the amount at risk in the event of default, the amount and dates of future cash flows, the value of the underlying security, and realization costs. Any changes in these estimates and assumptions, as well as the use of different, but equally reasonable, estimates and assumptions may have an impact on the allowance for credit losses and consequently on the provision for credit losses for the year.

A detailed description of the methods used to calculate the allowance for credit losses can be found in Note 1 to the consolidated financial statements on page 87.

Fair Value of Financial Instruments

The Bank records trading securities and derivative financial instruments held for trading at fair value. Any changes in fair value are recognized in income under "Trading revenues". Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act, based on quoted market prices. If market prices are not available, fair value is determined using estimates. The valuation techniques used to make these estimates incorporate current market prices, the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. If necessary, fair value is adjusted to take market, model and credit risks into account, as well as the related costs. Because of the role of judgment in estimating fair value amounts, fair values are not necessarily comparable between financial institutions and may not be indicative of net realizable value. Further information on determining fair value is presented in Note 22 to the consolidated financial statements on page 115.

Valuation of Investment Account Securities

Under Canadian generally accepted accounting principles, investment account equity securities are recorded at acquisition cost if the Bank does not have a significant influence, while debt securities are stated at unamortized acquisition cost. When an investment account security experiences an other-than-temporary impairment in value, its carrying value must be written down to its net realizable value. Determining whether or not there has been an other-than-temporary impairment in value and establishing the net realizable value require judgment and estimates. Management examines the value of investment account securities on an ongoing basis in order to determine whether the securities have experienced an other-than-temporary impairment. This examination includes an analysis of the facts specific to each investment and an assessment of expected future returns.

As part of this exercise, Management assesses a variety of factors that could be indicative of an other-than-temporary impairment in value. These include the carrying value of the security being less than its market value for a prolonged period; substantial losses by the investee in the prior year or previous few years; continued losses by the investee for the previous few years; a suspension of trading for the security; liquidity and going concern problems of the investee; and fair value being less than carrying value. When Management determines that a security has experienced an other-than-temporary impairment, it must form a judgment as to the estimated net realizable value.

Any change in the judgment used to identify securities that have experienced an other-than-temporary impairment and in estimating realizable value could have an impact on the amount of losses recognized.

Securitization

Securitization is a process by which the Bank sells receivables to a trust, which funds the purchase by issuing term bonds or commercial paper to investors.

Securitization operations are recorded as sales when the Bank surrenders control over the receivables sold, and receives a consideration other than a beneficial interest in these assets. Additional details on the Bank's securitization operations can be found in Note 3 to the consolidated financial statements, page 92, and in the section of the Annual Report dealing with special purpose entities on page 51.

To calculate the gain or loss on securitization operations, the previous carrying value must be allocated between the assets sold and retained interests based on their relative fair value at the date of transfer. Since quoted market prices are not available for retained interests, the Bank estimates fair value based on the present value of estimated expected cash flows. The Bank therefore must use estimates and assumptions mainly for expected credit losses, payment rates, discount rates and the excess spread. The use of different estimates and assumptions could have a material impact on results.

Goodwill and Other Intangible Assets

Under Canadian generally accepted accounting principles, goodwill and other intangible assets with an indefinite life are tested periodically for impairment to ensure that their fair value remains greater than or equal to their carrying value. The fair value of goodwill and intangible assets with an indefinite life is obtained using valuation models. These models take a number of factors into account, such as projected future cash flows and discount rates. The use of different estimates and assumptions in applying the impairment tests for goodwill and intangible assets with an indefinite life could have a material impact on results.

Pension Plans and Other Employee Future Benefits

The Bank's obligation under pension plans and other employee future benefits as well as the related expenses requires the use of actuarial valuations and assumptions. The material assumptions used to calculate these amounts include the discount rates for obligations related to pension benefits and other employee future benefits, long-term return on pension plan assets, the rate of compensation increase, mortality rates, the rate of employee turnover and general changes in health care costs. The use of different assumptions could have a material impact on the accrued benefit asset (liability) and on expenses related to pension plans and other employee future benefits.

Additional information on the Bank's pension plans and other employee future benefits is contained in Note 13 to the consolidated financial statements on page 101.

Income Taxes

The Bank formulates assumptions to estimate income tax expense as well as future income tax assets and liabilities. This process includes estimating the actual amount of income taxes payable and evaluating tax loss carry-forwards and temporary differences as a result of differences between the value of the items reported for accounting and for income tax purposes. Future income tax assets and liabilities are calculated according to the tax rates to be applied in future periods. Previously recorded future income tax assets and liabilities must be adjusted when the expected date of the future event is revised based on current information. The Bank periodically evaluates future income tax assets for recoverability. In the Bank's opinion, based on current evidence, it is more likely than not that all future income tax assets will be realized prior to their expiration.

FINANCIAL DISCLOSURE

In July 2002, in order to restore investor confidence in financial markets, the U.S. legislature passed the *Sarbanes-Oxley Act*, followed by the related regulations. The U.S. subsidiaries NB Capital Corporation and NB Finance Limited, which are subject to these statutes and regulations, were in compliance with all requirements of the Act and related regulations.

In April 2003, the adoption of Bill 198 by the Ontario Legislative Assembly granted additional powers to the Ontario Securities Commission and will make it easier for investors to take companies to court for misleading or incomplete disclosures. Based on the U.S. legislation, in June 2003, most Canadian securities commissions proposed new regulations also aimed at ensuring enhanced financial disclosure.

The Canadian regulations provide for increased responsibilities for the audit committees of listed companies to ensure the independence of external auditors. For this reason, audit committees will be responsible for awarding engagements to external auditors. Furthermore, the chief executive officer and chief financial officer must attest to the quality of the financial information disclosed and to the efficiency of the financial reporting internal control structure and procedures.

In order to satisfy regulatory requirements, the Bank set up a project team in February 2003, which has undertaken the following work:

- Creation of a disclosure committee at the Bank and a separate disclosure committee for subsidiaries subject to U.S. law
- Creation of an internal certification procedure for all persons involved in the preparation of financial information
- Review of the Bank's disclosure policy
- Review of the guidelines for awarding engagements to the external auditors
- Planning the work to document the internal control structure

In 2004, the Bank will finish documenting the financial disclosure internal control structure.

STRUCTURE OF THE BANK

Board of Directors

The Board of Directors oversees the management of the Bank. Its role is to protect the assets of the Bank and to ensure its viability, profitability and development. It is assisted in this by three committees, the Audit and Risk Management Committee, the Conduct Review and Corporate Governance Committee, and the Human Resources Committee.

In particular, the Board oversees the implementation of prudent and effective control measures to assess and manage risks, reviews the Bank's business objectives and approves strategies to achieve them, ensures that the necessary financial and human resources are in place, and assesses Management's performance. The Board also determines the values and standards required to fully meet the Bank's obligations to its shareholders, clients and employees.

Audit and Risk Management Committee of the Board

The Audit and Risk Management Committee assists the Board of Directors by reviewing the financial statements, financial reporting processes, internal controls, audit processes and management information systems in order to determine their integrity and effectiveness. In addition, it acts as an intermediary between the Board of Directors and independent functions such as internal and external audits, and the corporate compliance function. It also conducts a detailed review of the Bank's risk management and the control methods used therefor.

The Committee oversees the implementation of policies and mechanisms that will ensure effective internal control, and manages the external audit process. It also determines whether the Bank and its subsidiaries comply with applicable regulations and reviews the attestations and reports of compliance with the standards of sound business and financial practices, as well as any other reports that may be required by regulatory authorities.

Conduct Review and Corporate Governance Committee of the Board

The Conduct Review and Corporate Governance Committee assists the Board of Directors by overseeing the implementation of corporate governance rules, procedures and policies, ensuring compliance with the Code of Professional Conduct and monitoring transactions between related parties.

The Conduct Review and Corporate Governance Committee establishes and regularly reviews the composition and mandate of each committee of the Board, of the Board itself, and of the Chairman of the Board. It also has the mandate to periodically review the report on corporate governance to be submitted to shareholders, the share ownership guidelines, the criteria and procedures regarding the selection and succession of Directors, conflicts of interest, the size of the Board of Directors and policies regarding the duration of mandates. The Committee assesses the performance and effectiveness of the Board and its committees, and reviews the orientation and education programs for new Directors.

The Committee ensures that proper mechanisms exist to disclose information to clients, and supervises the application of procedures for reviewing complaints of clients who have obtained products or services in Canada.

Human Resources Committee of the Board

The Human Resources Committee assists the Board of Directors by reviewing and approving the Bank's practices and policies with respect to human resources.

The Committee annually reviews the Bank's salary policy and its approach to total compensation and other employment conditions. It ensures that there is a human resources management program in place that includes, among other things, a recruiting process and a succession plan, the allocation of decision-making power, the separation of incompatible functional responsibilities and a program for communicating with employees, as well as the means to effectively supervise them.

The Committee annually evaluates the performance of officers and the prudence with which executive officers manage the Bank's activities and the risks to which it is exposed. It reviews Directors' profiles, the competencies required and the management succession plan of the Bank and its subsidiaries. Lastly, it reviews and approves the mandate of the Retirement Committee, annually receives and examines reports on the decisions of that Committee, the financial situation, the returns on the pension plans and the return of the pool fund.

Executive Committee

The Executive Committee, consisting of the President and Chief Executive Officer and the officers responsible for the Bank's major lines of business, has the mandate to define the culture and philosophy of the Bank, to approve and pursue

the strategic initiatives of the Bank group as a whole, to manage the succession process, and to ensure a balance between employee engagement on the one hand and the satisfaction of both clients and shareholders on the other.

The Committee works as a team in carrying out its responsibilities, thereby ensuring consistency while sharing information and knowledge among the Bank's business units.

RISK MANAGEMENT

The Bank has developed a management framework to identify, measure and monitor the various risks inherent in its business activities. This risk management framework has been developed so that a rigorous, judicious culture underlies decision making and ensures an appropriate risk-return balance. The management framework has also been developed so that operational business decisions comply with the target degree of tolerance established by the organization while optimizing overall shareholder return.

Competent, experienced risk management professionals, acting independently or in co-operation with the business units according to risk category, also contribute to sound risk management. These professionals foster a strong corporate culture by emphasizing rigorous control processes and measures. They apply risk management standards and use proven management processes and models to ensure insightful decision making.

The risk management framework is built into a governance model that ensures general and direct management of the various aspects of risk.

Risk Governance

To convey the institution's risk culture and optimize shareholder return, risk governance is based on a set of components and an operational structure organized as follows:

Heading the risk management structure at National Bank is the Board of Directors, which is responsible for establishing risk management policies. The Board delegates a portion of its responsibilities in this regard to the Audit and Risk Management Committee, which recommends policies and, once they are adopted, oversees their application. Moreover, this Committee makes all exceptional risk-related decisions. The Audit and Risk Management Committee is assisted by Internal Audit, Compliance and three committees, the Credit Committee, the Market Risk Management Committee and the Operational Risk Management Committee, all of which are composed of members of Management. Internal Audit, whose Senior Vice-President reports directly to the Audit and Risk Management Committee, provides an independent and objective assessment of the effectiveness of processes, policies, procedures and control measures implemented by managers. Moreover, Internal Audit recommends solutions designed to improve the effectiveness of the risk management, internal control and operating activities of the Bank and its subsidiaries.

Global Risk Management

Global risk management entails establishing, developing and maintaining effective processes and models to ensure uniform and stringent treatment of risk. Processes are re-evaluated periodically; risk models are evaluated separately.

ECONOMIC CAPITAL CONSTITUTES A DYNAMIC MEASURE OF RISK THAT PERMITS A COMPARISON OF DIFFERENT ACTIVITIES AND RISK CATEGORIES. IT FORMS THE BASIS OF RISK-ALIGNED CAPITAL MANAGEMENT AND IS USED TO ASSIGN A CAPITAL COST TO THE RELATIVE RISK OF THE VARIOUS BUSINESS SEGMENTS.

In its operations, the Bank is exposed to four main risk categories: credit risk, market risk, liquidity risk and operational risk. Global risk management therefore includes assessment of the possible consequences of each risk and establishment of policies and processes to effectively reduce the incidence of each risk. Global risk management converges toward a unique measure, i.e., economic capital, which defines the ultimate risk that the Bank must support in its business activities.

Credit Risk

The Bank is exposed to credit risk in its lending activities and operations, which involve settlements between the Bank and counterparties. These activities and operations include direct loans, commitments to extend credit, risk of non-settlement, derivative transactions, and securities held for extended periods.

The Bank supervises and manages credit risk at every level of the organization using an advanced management process governing activities associated with credit risk, namely:

- A prudent credit-approval process based on policies governing the philosophy, principles and conduct of lending operations
- An advanced process establishing limits and monitoring, ranging from the policy on maximum credit per borrower group to sector limits for credit commitments
- A credit committee that supervises and approves credit

An efficient lending process has long been in place at the Bank. This process requires competent, experienced lenders, a transparent line authority structure, a high degree of personal accountability, account monitoring, and dynamic portfolio management. Credit decisions are made on a case-by-case basis by the various risk management authorities and Management, at the level corresponding to the size and the degree of risk inherent in the transaction. Decisions are based on client creditworthiness, available security and compliance of the transaction with standards and procedures as well as the Bank's overall risk-adjusted return objective.

CREDIT RISK IS THE POSSIBILITY OF FINANCIAL LOSS SHOULD A BORROWER OR COUNTERPARTY FAIL TO HONOUR ITS OBLIGATIONS.

Establishment of limits

Credit risk governance policies ensure credit risk is diversified. The degree of portfolio diversification is achieved by applying and monitoring limits according to country risk, sector risk, single-holder risk and transaction risk. The Audit and Risk Management Committee of the Board of Directors reviews the limits at least once a year. The Bank's credit risk governance structure ensures that these limits are respected and that any exception is detected and rapidly reported so it can be resolved effectively.

Standards and procedures

To manage credit risk, each year the Board of Directors adopts, on the recommendation of the Audit and Risk Management Committee, a comprehensive policy that defines the main standards, procedures and control methods for credit granted by the Bank. The policy is applied by the Bank's Credit Committee, which is chaired by the Senior Vice-President – Risk Management. The Credit Committee's decisions are supported by sector analyses performed by the Bank's economists and Risk Management group. The credit policy established by the Board of Directors and the administrative measures adopted by the various units of the Bank in applying the policy define acceptable risk, portfolio diversification criteria, economic and geographic sector-specific constraints, as well as allocation and authorization line levels. All standards and policies are reviewed by the Audit and Risk Management Committee. The higher the credit amount or risk, the higher the authorization line level within the Bank's structure. Exceptionally, decisions may even be referred to the Board of Directors. In addition, specific standards apply to individuals or companies related to the Bank.

When an application for credit is made to the Bank, it is subject to a procedure that becomes increasingly rigorous depending on the amount requested or the degree of risk of the sector, region or borrower. Once the application is made in due form and after the required information and documents have been provided, it is analyzed according to a sophisticated credit scoring system. The decision to approve credit is made by a credit officer or by the Bank's Credit Committee. Any deviation from the procedure must be submitted to the Audit and Risk Management Committee.

Credits and borrowers are continuously monitored according to the degree of risk they represent. Ongoing analyses attempt to foresee potential problems in an industry or region or with a borrower before these become apparent in the form of past due payments. Any loan on which interest is in arrears for 90 days or more is classified as impaired and a loss provision must be taken for it. Moreover, loans that are not past due but where repayment of principal or interest is not reasonably assured are also deemed impaired. The Bank's policies set out detailed provisioning criteria and, where required, write-off criteria for irrecoverable debts. The credit policies also define recovery practices, the intent of which is to minimize losses by recovering the largest possible portion of the amounts owing. A team of internal auditors ensures the standards are respected at all times.

Credit risk assessment models

The Bank assesses credit risk using various models adapted to portfolio type. In all cases, the risk correlation is a key piece of information and enters into the estimate of the risk of the various credit portfolios. Expected and unexpected losses are calculated for major transactions and for all portfolios that involve credit risk. These estimates are used to forecast in part loss provisions and the level of the general allowance for credit risk. Expected and unexpected losses are based on experience, portfolio monitoring, market data and statistical modelling. The material factors are:

- Probability of default
- Outstanding credit at the time of default
- Potential loss in the event of default
- Impact of economic and sector cycles on asset quality

Expected and unexpected losses enter into the estimate of economic capital for each of the Bank's relevant business segments. Measures of credit-related economic capital, like all measures of risk capital, are based on a 99.95% confidence interval over a one-year holding period.

The Bank also carries out stress tests to gauge, as a function of specific shocks, the amount of economic capital that would be required in adverse situations. These sensitivity tests show, in a crisis, the degree of solvency that is closely related to the amount of capital needed to absorb the resulting potential losses. Credit risk modelling and quantification result in improved internal risk management since they broaden risk oversight.

Market Risk

Market risk is the risk of financial loss incurred by the Bank as a result of unfavourable changes in underlying market factors, including interest rates, foreign exchange rates, equity prices, commodity prices and credit.

Consequently, market risk is inextricably linked with the Bank's participation on financial markets, in both its trading operations and asset/liability management. The Bank considers market risk management a fundamental skill, the objective of which is not to neutralize market risk but rather to maximize the risk-return trade-off within carefully defined limits.

Standards, procedures and controls

On the recommendation of its Audit and Risk Management Committee, the Bank's Board of Directors has adopted detailed policies and limits for managing the four components of market risk: interest rate risk, foreign exchange risk, equity risk and commodity risk. The policies adopted by the Board of Directors establish standards, procedures and controls aimed at optimizing the risk-return trade-off and ensuring oversight of financial transactions.

The Audit and Risk Management Committee oversees the Market Risk Management Committee, which heads the risk management structure for the entire Financial Markets segment. The New Products Committee and the Risk Management Committee of National Bank Financial also report to it. The Market Risk Management Committee plays a key role in establishing market risk policies and practices, including risk assessment, maximum limits, simulation and oversight processes, as well as operational compliance with Bank policies.

The Risk Management Group is an independent team that is responsible for day-to-day monitoring of market risk exposure, including ensuring that maximum limits and authorization procedures are respected. The Group also develops risk measurement procedures and models used for simulations.

Value-at-Risk

The Value-at-Risk (VaR) simulation model is one of the main tools used to manage market risk in the Bank's financial market activities. The VaR measure is based on a 99% confidence level, which is an estimate of the maximum potential trading loss in 99 out of 100 days, or to put it another way, actual losses will probably exceed VaR on only one day out of 100. VaR is calculated on an ongoing basis for the major categories of financial instruments (including derivatives) and the Bank's aggregate portfolio. Insofar as is possible, it ensures that trading and investment decisions do not entail risks that exceed pre-set limits. The computerized VaR calculation model is based on two years of historical data.

Outstanding value at risk in comparison with established limits is monitored regularly for each product, portfolio and business unit, as well as by type of activity: trading, investment and asset/liability management. As a result, risk management of structural interest rates (management of asset and liability maturities) has a VaR limit approved by the Board of Directors. Moreover, the Bank has an overall limit, covering all its market-related operations. Other limits complement VaR to control associated residual risks, primarily concentration, volatility and liquidity.

Stress tests and sensitivity analyses

The VaR model simulates losses in a market situation similar to that observed from historical data. To simulate the impact of improbable events, the Bank also runs stress tests, exploring events such as the stock market crash of 1987, and performs sensitivity analyses related to wide market movements, for interest rates, prices and currencies. Stress tests are established jointly by the Risk Management Group and line managers and are reviewed regularly to reflect changes in market conditions, new products and trading strategies. Each day the Bank performs more than 80 scenarios and analyses, and all financial market-related activities are covered. Maximum potential loss limits have been approved by the Board for stress tests and sensitivity analyses.

Trading activities

The Bank maintains trading portfolios for market-making, arbitrage for its own account, liquidity for its institutional clients and the sale of financial products.

The following table shows the VaR distribution of the trading portfolios by risk category while demonstrating the diversification effect. During the year, the Bank created two separate risk categories—for equity securities and for commodities.

Trading Activities (1)
(millions of dollars)
Overall VaR by Risk Category

	2003				2002			
	At end	**High**	**Average**	**Low**	At end	High	Average	Low
Interest rate	**(4)**	**(5)**	**(4)**	**(2)**	(3)	(5)	(3)	(1)
Foreign exchange	**(1)**	**(2)**	**(1)**	**–**	–	(3)	(1)	–
Equity and commodities	**–**	**–**	**–**	**–**	(1)	(3)	(2)	(1)
Equity	**(2)**	**(5)**	**(2)**	**(1)**	–	–	–	–
Commodity contracts	**–**	**(1)**	**–**	**–**	–	–	–	–
Correlation effect (2)	**3**	**7**	**3**	**–**	1	5	2	–
Overall VaR	**(4)**	**(6)**	**(4)**	**(3)**	(3)	(6)	(4)	(2)

(1) Amounts are shown before income taxes and represent daily VaR
(2) The correlation effect results from diversification by risk type

Allocation of trading revenues by risk type is as follows:

Trading Revenues
(taxable equivalent basis)
(millions of dollars)

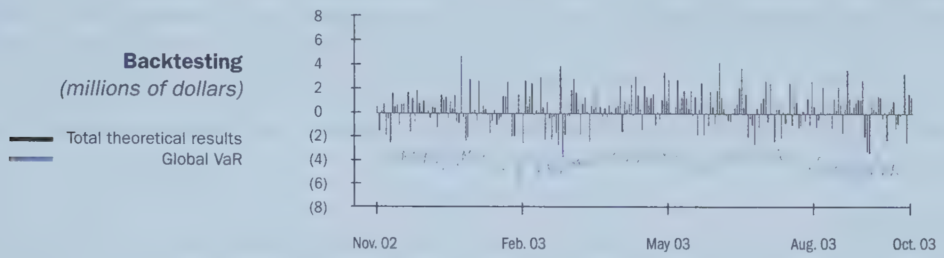
	2003	2002
Financial markets		
Interest rate	**131**	64
Equity	**145**	63
Commodities and foreign exchange	**96**	25
	372	152
Other segments	**12**	22
Total	**384**	174

Trading revenues generated by Financial Markets stood at $372 million, up $220 million, as a result of the favourable bond and stock markets. In addition, the volatility of the U.S. dollar and opportunities on commodities-linked contracts also helped push up trading revenues.

Backtesting

The following chart gives the results of backtesting, which each day compares the VaR projected by the Bank's simulations with the theoretical revenues obtained. This type of testing, done on a daily basis, validates the usefulness and integrity of the VaR model used to estimate the maximum risk of market losses.

Backtesting
(millions of dollars)



Interest rate risk in asset/liability management

Managing assets (investments, including loans) and liabilities (debt, including deposits) exposes the Bank to interest rate risk. Interest rate fluctuations give rise to changes in interest income and interest expense. Although these changes move in the same direction, the impact of their relative weighting on net interest income and the economic value of shareholders' equity will be favourable or unfavourable. The extent of the impact depends on several factors, including asset and liability matching and the interest rate curve. Assets and liabilities are managed in such a way as to optimize the impact of fluctuations in interest rates as a function of projected rate movements.

The Bank's Treasury is responsible for managing assets and liabilities in accordance with policies adopted by the Board of Directors and overseen by the Audit and Risk Management Committee. The Market Risk Management Committee works closely with Treasury in this activity. Simulations are carried out regularly to assess the impact of various scenarios on net interest income and the economic value of shareholders' equity and to provide guidance for the management of the assets and liabilities portfolio.

Interest Rate Sensitivity
As at October 31
(millions of dollars)

	2003
100 basis point increase in interest rates	
Impact on net interest income	(11)
Impact on shareholders' equity	(67)

Liquidity Risk

Objective

The objective of the Bank's liquidity management is to honour daily cash outflow commitments and to avoid having to purchase funds rapidly, possibly at an excessively high premium, or having to sell readily traded securities. Liquidity risk arises from two sources: mismatched cash flows related to assets and liabilities; and liquidity risk due to the characteristics of certain products, such as credit commitments and demand deposits.

The Bank therefore strives constantly to spread the maturities of its deposit liabilities, to maintain diversified sources of liabilities and to hold sufficient liquid assets. It maintains constant contact with institutional and corporate depositors to ensure diverse sources of funds.

Policy

The Bank has a liquidity management and funding policy and has prepared a contingency plan in the event of a liquidity or funding crisis. The policy establishes ratios and limits to restrict the Bank's dependence on any particular depositor or to avoid an undue concentration of deposits from a single depositor. In this way, the concentration of purchased funds (wholesale market) is limited to a percentage of total deposits, and a maximum amount per depositor is established. Any amount over and above these limits reduces the liquidity ratios. Similarly, the Bank regularly assesses its survival period and measures the liquidity of its assets in relation to a predetermined liquidation horizon. The policy is approved by the Board of Directors on the recommendation of the Audit and Risk Management Committee.

Responsibilities
The President – Financial Markets, Treasury and Investment Bank is responsible for overseeing the liquidity management and funding policy. Treasury assumes daily responsibility for managing liquid assets and ensures compliance with ratios and limits. Similarly, Treasury co-ordinates funding for all of the Bank's centres abroad.

The Audit and Risk Management Committee is informed regularly of the liquidity situation at the Bank.

Contingency plan
The Bank has also put in place a liquidity contingency plan, which sets out the steps to be taken in a crisis. The Bank has adopted mitigation strategies that can be applied in a crisis, has defined the responsibilities of senior management and has established the procedures to be applied by the Bank in assessing its liquidity needs. The Liquidity Crisis Committee is mandated by the Board to assume day-to-day management of the Bank in a liquidity crisis.

The scenarios and types of crises are reviewed and updated annually to take into account the Bank's new products and operations.

Operational Risk

Operational risk is the potential loss resulting from inadequacy or breakdown related to processes, technology or human performance, or external events.

For instance, fraud or unauthorized activities, system outages, human error, non-compliance with legal, regulatory or contractual requirements, lawsuits involving clients and property damage are events likely to give rise to financial loss or other inconvenience for the Bank, including damage to its reputation.

While operational risk can never be fully eliminated, it must be managed in a disciplined, transparent manner to keep it at an acceptable level. To that end, the Bank is implementing a management framework that includes a governance model as well as standards and procedures to identify, measure and monitor operational risk.

Governance
Policies
The Bank's governance model includes a policy, approved by the Board of Directors, that applies to the Bank and its subsidiaries and sets out the operational risk management framework as well as the responsibilities of the various parties in this area.

In addition, support units, such as Human Resources, Finance and Information Technology, are developing other specific policies and standards.

Responsibilities of parties
- The Bank's business units are responsible for the daily management of the operational risk to which they are exposed and must allocate resources for that purpose. They have introduced a process for identifying and monitoring operational losses and in 2004 will implement a program for self-assessment of risks and controls.

- The central operational risk unit develops standards and procedures used to identify, measure and monitor operational risk. It provides support and assistance to the business units for implementation of and compliance with these standards and procedures. Finally, it gathers and compiles information on the business units' level of risk and reports on this matter.

- The Operational Risk Management Committee approves the relevant standards and procedures, co-ordinates implementation of the management framework, oversees and monitors the Bank's level of operational risk, and reports to the Board on such matters.

- Finally, the Internal Audit Department and the Compliance Department give the Board of Directors assurance on the measurement of the quality and effectiveness of the internal controls put in place by the business units.

Standards and procedures used to identify, measure and monitor operational risk
Guidelines
The business units must draw on a set of guidelines for sound operational risk management, including the following:
- Competent, well-trained personnel
- Segregation of incompatible duties and delegation of decision-making authority
- Monitoring of technology development and information security
- A planning process for resumption of activities in the event of business interruption
- Identification and assessment of risks created by the introduction of new products

Self-assessment of risks and controls

A methodology for self-assessment of risks and controls is currently being deployed. Using this methodology, each business unit can identify the most significant operational risks to which it is exposed, assess and document the corresponding control environment and establish residual risk, i.e., that which remains after the control environment has been taken into account. Action plans are then developed to establish an acceptable level for residual risks deemed too high.

Operational losses database

A process to identify operational risk has been implemented across the Bank and its subsidiaries. The data collected include type and amount of each loss, as well as a description of the triggering events, so as to provide a better understanding of the causes of such losses and to establish mitigation strategies. The central operational risk unit uses a centralized database to carry out segment or consolidated analyses. No material loss of this kind occurred during the year.

Regulatory capital

Pursuant to the Basel Accord, the Bank intends to qualify for the standardized approach when operational risk is included in the regulatory capital standards in 2006.

Initiatives in progress

The Bank carefully monitors development of the financial industry's operational risk practices and plans initiatives to ensure proactive management of operational risk, such as implementation of risk indicators and establishment of operational risk management committees within its business units.

Compliance

The Bank's Compliance Department is an independent function that:

- Establishes policies and procedures to ensure regulatory requirements are respected in all jurisdictions where the Bank carries on business
- Oversees the Bank's compliance with policies and procedures
- Refers matters involving compliance to the Bank's Board of Directors

The managers of the business units are responsible for putting in place daily mechanisms to control legal and regulatory risks arising from the operations under their responsibility. The Compliance Department exercises independent oversight to assist managers in managing these risks effectively.

This control framework comprises the following elements:

- Identification of laws that impose compliance requirements, namely, those laws that oblige the Bank to take certain measures or to act or to carry out activities in a specific manner
- Evaluation of significant compliance requirements
- Identification of the business units affected by compliance requirements
- Communication of compliance requirements to managers of the business units so that they can manage legal and regulatory risks effectively
- Oversight of compliance with policies and procedures
- Reporting, on an annual basis, to the Audit and Risk Management Committee of the Board on the major results of compliance oversight

The Compliance Department has authorities under which it may communicate directly with the officers and directors of the Bank and its subsidiaries, obtain unrestricted access to files, reports, records and data, and require employees of all the entities in the National Bank group to provide the information deemed necessary for effective oversight. Its Vice-President has direct access to the Chair of the Audit and Risk Management Committee as well as to the President and Chief Executive Officer.

CAPITAL MANAGEMENT

Structure

As with risk management, the Bank's capital management structure is headed by the Board of Directors, which establishes its capital management policies. The Board delegates certain responsibilities to the Audit and Risk Management Committee, which recommends capital management policies and oversees their application. The Audit and Risk Management Committee is assisted by the Capital Management Committee and the Capital and Balance Sheet Management unit. The Capital Management Committee, whose Chair is the Senior Vice-President – Finance, Technology & Corporate Affairs, consists of managers from the Bank's main business segments as well as representatives from Finance and Risk Management. The Capital and Balance Sheet Management unit, which provides reports to the Capital Management Committee, ensures that the Bank continues to have a solid capital structure and supervises the use of capital for the Bank as a whole.

Standards, Procedures and Controls

Capital management strives to balance the need to maintain capital ratios that meet the requirements of a well-capitalized financial institution, as defined by the Superintendent of Financial Institutions Canada, with the need to offer the Bank's shareholders a competitive return.

Each year the Board of Directors, on the recommendation of the Audit and Risk Management Committee, approves a comprehensive capital management policy as well as the Bank's capital plan. The capital management policy sets out the principles and practices that the Bank incorporates into its capital management strategy as well as the basic criteria that it adopts to ensure it has adequate capital at all times and prudently manages its future capital requirements. The capital plan establishes operational targets and takes into account the forecast levels for risk-adjusted assets. Moreover, the capital plan analyzes the various actions the Bank can take to improve capital management. To do so, the Bank manages the issuance and redemption of capital securities and subordinated debt securities to structure its capital in the most effective way possible.

The Capital Management Committee meets once a month and reviews the regulatory capital ratios as well as events that could affect capital management. Moreover, a quarterly compliance report on regulatory capital ratios is submitted to the Audit and Risk Management Committee. Finally, the team of internal auditors and the Bank's Compliance Department ensure that regulatory capital standards are respected.

Capital Management Activities in 2003

In fiscal 2003, the Bank carried out the following operations in applying the capital management policy and the annual capital plan: it repurchased 9.1 million common shares, redeemed the Series 12 preferred shares, issued Series 15 preferred shares and increased the quarterly dividend.

Economic Capital and Available Capital

Economic capital represents an estimate of the amount of equity capital required to support the Bank's risks. Economic capital is established according to three risk factors: credit, market and operational risk. Calculation of economic capital, which is submitted on a quarterly basis to the Bank's Executive Committee, ensures that capital management of the Bank's operating segments is more rigorous by quantifying the degree of risk presented by each segment. The Bank calculates the value added for shareholders in each of its segments of activity to determine the allocation of capital that is most profitable for shareholders. Moreover, the Bank's Executive Committee compares the Bank's economic capital and available capital on a quarterly basis.

Calculation of economic capital requires the formulation of assumptions and the exercise of judgment, and the amount of economic capital calculated could differ if changes are made to such assumptions and judgments. The Bank's economic capital allocation model is regularly improved as part of its capital management process.

Finally, to optimize the value of the Bank's shares, the concepts of regulatory capital, economic capital and available capital are incorporated into the active capital management process and the composition of the Bank's portfolio of companies.

New Basel Accord

The Bank for International Settlements is revising the rules governing calculation of banks' capital requirements. This process began in 1999 and should be completed in 2004; however, the New Basel Accord is not scheduled to take effect until 2007. The proposed method would take greater account of counterparty risks, place more importance on internal risk management models and introduce a capital requirement for operational risk.

Last year, the Bank created a group whose mandate is to implement the New Basel Accord. The group will make various capital impact studies, play an active role in shaping industry positions, work closely with regulatory bodies to streamline the transition to the new regime and initiate projects required for compliance with the New Basel Accord.

TABLE 1. OVERVIEW OF RESULTS

Year ended October 31 (taxable equivalent basis) (millions of dollars and as a percentage of average assets)	**2003** $	**2003** %	2002 $	2002 %	2001 $	2001 %	2000 $	2000 %	1999 $	1999 %
Net interest income	**1,366**	**1.91**	1,473	2.13	1,389	2.01	1,232	1.76	1,224	1.86
Other income	**2,093**	**2.92**	1,641	2.37	1,858	2.68	1,940	2.78	1,233	1.87
Provision for credit losses	**177**	**0.25**	490	0.71	205	0.30	184	0.26	170	0.26
Operating expenses	**2,259**	**3.15**	2,040	2.95	1,989	2.87	2,120	3.03	1,615	2.46
Income taxes	**374**	**0.52**	236	0.34	398	0.58	343	0.49	251	0.38
Non-controlling interest	**27**	**0.04**	30	0.04	28	0.04	26	0.04	32	0.05
Income before discontinued operations and goodwill charges	**622**	**0.87**	318	0.46	627	0.90	499	0.72	389	0.58
Discontinued operations	**2**	**–**	111	0.16	(45)	(0.07)	29	0.04	36	0.05
Income before goodwill charges	**624**	**0.87**	429	0.62	582	0.83	528	0.76	425	0.63
Goodwill charges	**–**	**–**	–	–	19	0.03	19	0.03	8	0.01
Net income	**624**	**0.87**	429	0.62	563	0.80	509	0.73	417	0.62
Average assets (1)	**71,671**		69,292		69,197		69,840		65,784	

(1) *Excluding discontinued operations*

TABLE 2. CHANGES IN NET INTEREST INCOME

Year ended October 31 (taxable equivalent basis) (millions of dollars and as a percentage of average assets)	**2003** Average Volume $	**2003** Rate %	**2003** Interest $	2002 Average Volume $	2002 Rate %	2002 Interest $	2003-2002 Average Volume $	2003-2002 Rate %	2003-2002 Interest $	$ Change due to: Average Volume	$ Change due to: Rate
Assets											
Deposits with financial institutions	**6,245**	**2.10**	**131.4**	7,316	2.38	174.3	(1,071)	(0.28)	(42.9)	(22.5)	(20.4)
Securities	**18,863**	**3.00**	**566.8**	16,510	3.14	517.9	2,353	(0.14)	48.9	70.6	(21.7)
Residential mortgage loans	**13,752**	**5.49**	**755.3**	12,591	5.72	719.6	1,161	(0.23)	35.7	63.7	(28.0)
Personal loans	**5,690**	**6.53**	**371.4**	5,395	6.59	355.8	295	(0.06)	15.6	19.3	(3.7)
Business and other loans	**20,125**	**3.63**	**730.7**	21,221	3.87	821.9	(1,096)	(0.24)	(91.2)	(39.8)	(51.4)
Impaired loans, net	**(174)**	**(0.46)**	**0.8**	(97)	(1.55)	1.5	(77)	1.09	(0.7)	0.4	(1.1)
Earning assets	**64,501**	**3.96**	**2,556.4**	62,936	4.12	2,591.0	1,565	(0.16)	(34.6)	91.7	(126.3)
Other assets	**7,170**	**–**	**–**	6,356	–	–	814	–	–	–	–
Total assets	**71,671**	**3.57**	**2,556.4**	69,292	3.74	2,591.0	2,379	(0.17)	(34.6)	91.7	(126.3)
Liabilities and shareholders' equity											
Personal deposits	**21,038**	**2.69**	**566.6**	21,420	2.96	633.6	(382)	(0.27)	(67.0)	(10.3)	(56.7)
Deposit-taking institutions	**5,450**	**1.78**	**97.1**	6,421	2.14	137.3	(971)	(0.36)	(40.2)	(17.3)	(22.9)
Other deposits	**21,678**	**2.70**	**585.9**	21,083	2.34	493.2	595	0.36	92.7	16.1	76.6
	48,166	**2.59**	**1,249.6**	48,924	2.58	1,264.1	(758)	0.01	(14.5)	(11.5)	(3.0)
Subordinated debentures	**1,553**	**6.77**	**105.2**	1,623	6.77	109.8	(70)	–	(4.6)	(4.7)	0.1
Liabilities other than deposits	**10,266**	**0.88**	**90.4**	9,257	0.86	79.9	1,009	0.02	10.5	8.9	1.6
Other (1)	**239**	**–**	**(254.8)**	(28)	–	(336.1)	267	–	81.3	–	81.3
Interest-bearing liabilities	**60,224**	**1.98**	**1,190.4**	59,776	1.87	1,117.7	448	0.11	72.7	(7.3)	80.0
Other liabilities	**7,427**	**–**	**–**	5,550	–	–	1,877	–	–	–	–
Shareholders' equity	**4,020**	**–**	**–**	3,966	–	–	54	–	–	–	–
Total liabilities and shareholders' equity	**71,671**	**1.66**	**1,190.4**	69,292	1.61	1,117.7	2,379	0.05	72.7	(7.3)	80.0
Impact of non-interest bearing assets and liabilities	–	–	–	–	–	–	–	–	–	(53.6)	53.6
Net interest income		**1.91**	**1,366.0**		2.13	1,473.3		(0.22)	(107.3)	45.4	(152.7)

(1) *Other interest income and interest expense including hedging operations*

TABLE 3. OTHER INCOME

Year ended October 31 *(taxable equivalent basis)* *(millions of dollars)*	**2003**	2002	2001	2000	1999
Capital market fees	**544**	539	493	566	336
Deposit and payment service charges	**189**	186	160	155	150
Trading activities	**381**	123	227	281	108
Gains (losses) on investment account securities, net	**1**	(98)	71	37	12
Card service revenues	**49**	47	86	85	91
Lending fees	**204**	181	175	171	146
Acceptances, letters of credit and guarantee	**63**	63	65	60	55
Foreign exchange revenues	**66**	67	61	52	50
Trust services and mutual funds	**210**	160	96	87	77
Securitization revenues	**204**	204	157	99	67
Other	**182**	169	267	347	141
	2,093	1,641	1,858	1,940	1,233
Domestic	**2,039**	1,595	1,856	1,927	1,206
International – United States	**30**	(3)	6	6	7
– Other	**24**	49	(4)	7	20
Other income as a percentage of total revenues on a taxable equivalent basis[1]	**60.5%**	54.7%	56.2%	59.4%	50.2%

(1) In 2002, the $137 million impairment charge on an investment was excluded. In 2001, the $76 million gain (taxable equivalent basis) on the sale of merchant payment solutions was excluded. In 2000, the $136 million gain (taxable equivalent basis) on the sale of a subsidiary was excluded.

TABLE 4. PROVISION FOR CREDIT LOSSES

Year ended October 31 (millions of dollars)	**2003**	2002	2001	2000	1999
Provision for credit losses					
Domestic					
Individuals and small businesses	**61**	186	72	88	77
Commercial	**46**	154	102	69	75
Corporate	**64**	44	26	13	3
Real estate	**7**	23	12	15	12
Other	**(1)**	(13)	(6)	(2)	–
Domestic – Private risks	**177**	394	206	183	167
International					
Real estate – United States	**–**	(3)	(1)	(7)	–
Corporate	**–**	129	–	–	–
Other	**–**	–	–	8	3
International – Private risks	**–**	126	(1)	1	3
General allowance for credit risk	**–**	(30)	–	–	–
Provision for credit losses charged to income before discontinued operations	**177**	490	205	184	170
Provision for credit losses charged to discontinued operations	**(1)**	(51)	120	16	15
Total provision for credit losses charged to income	**176**	439	325	200	185
Net average loans and acceptances					
Domestic	**38,406**	37,543	38,308	39,345	38,928
International – United States	**778**	663	677	851	737
– Other	**103**	188	291	301	213
Discontinued operations	**–**	–	3,925	3,967	3,605
Total	**39,287**	38,394	43,201	44,464	43,483
Provision for credit losses as a percentage of net average loans and acceptances					
Domestic	**0.46%**	1.05%	0.54%	0.47%	0.43%
International – United States	**–%**	19.00%	(0.15)%	(0.83)%	–%
– Other	**–%**	–%	–%	2.66%	1.41%
Discontinued operations	**–%**	–%	3.06%	0.40%	0.42%
Total	**0.45%**	1.14%	0.75%	0.45%	0.43%
Allowances					
Balance at beginning of year	**666**	896	965	989	1,049
Transfer from allowance for assets held for disposal	**–**	(45)	–	–	–
Provision for credit losses charged to income					
Before discontinued operations	**177**	490	205	184	170
Discontinued operations	**(1)**	(51)	120	16	15
Write-offs (1)	**(258)**	(673)	(402)	(257)	(276)
Recoveries	**50**	49	8	33	31
Balance at end of year	**634**	666	896	965	989
Composition of allowances					
Designated countries					
Portion related to loans	**19**	22	38	35	37
Portion related to securities	**4**	4	17	17	16
Specific	**206**	235	341	413	436
General allocated	**300**	296	306	–	–
General unallocated	**105**	109	194	500	500

(1) *Including exchange rate fluctuations*

TABLE 5. OPERATING EXPENSES

Year ended October 31 (millions of dollars)	**2003**	2002	2001	2000	1999
Salaries and staff benefits	**1,287**	1,147	1,064	1,129	858
Occupancy costs, computers and equipment, including amortization	**504**	496	483	465	381
Other					
Messenger services and communications	**80**	77	69	71	63
Professional fees	**112**	99	92	85	74
Advertising and external relations	**62**	50	42	45	36
Stationery	**26**	28	27	26	21
Travel expenses	**21**	17	16	15	12
Security and theft	**16**	24	16	13	11
Capital and payroll taxes	**60**	57	63	64	38
Other	**91**	45	117	207	121
	468	397	442	526	376
Total	**2,259**	2,040	1,989	2,120	1,615
Domestic	**2,210**	1,999	1,956	2,083	1,573
International – United States	**38**	18	16	20	28
– Other	**11**	23	17	17	14
Operating expenses as a percentage of total revenues on a taxable equivalent basis(1)	**65.3%**	62.8%	62.7%	65.8%	65.7%

(1) In 2002, the $137 million impairment charge on an investment was excluded from other income. In 2001, the $76 million gain (taxable equivalent basis) on the sale of merchant payment solutions was excluded. In 2000, the $136 million gain (taxable equivalent basis) on the sale of a subsidiary and $120 million in non-recurring charges were excluded.

TABLE 6. DEPOSITS

As at October 31 (millions of dollars)	**2003** $	**2003** %	2002 $	2002 %	2001 $	2001 %	2000 $	2000 %	1999 $	1999 %
Personal	**23,301**	**45.3**	22,306	43.2	21,485	41.8	20,497	40.6	20,316	40.6
Commercial	**15,477**	**30.1**	14,183	27.4	11,667	22.7	9,726	19.3	8,737	17.5
Purchased funds	**12,685**	**24.6**	15,201	29.4	18,284	35.5	20,250	40.1	20,931	41.9
Total	**51,463**	**100.0**	51,690	100.0	51,436	100.0	50,473	100.0	49,984	100.0
Domestic	**43,809**	**85.1**	40,959	79.2	38,161	74.2	35,383	70.1	36,035	72.1
International – United States	**877**	**1.7**	2,814	5.5	4,315	8.4	6,935	13.7	5,518	11.0
– Other	**6,777**	**13.2**	7,917	15.3	8,960	17.4	8,155	16.2	8,431	16.9
Total	**51,463**	**100.0**	51,690	100.0	51,436	100.0	50,473	100.0	49,984	100.0
Personal deposits as a percentage of total assets		**28.3**		29.9		28.3		27.0		29.1

TABLE 7. SOURCES OF CAPITAL

As at October 31 *(millions of dollars)*	2003	2002	2001	2000	1999
Non-controlling interest	**398**	486	487	468	443
Subordinated debentures	**1,516**	1,592	1,647	1,361	1,035
Shareholders' equity					
Preferred shares	**375**	300	492	492	317
Common shares	**1,583**	1,639	1,668	1,653	1,641
Contributed surplus	**2**	–	–	–	–
Retained earnings	**2,137**	1,962	1,956	1,683	1,343
	4,097	3,901	4,116	3,828	3,301
Total capital	**6,011**	5,979	6,250	5,657	4,779
Internally generated capital					
Net income	**624**	429	563	509	417
Other amounts affecting retained earnings	**(15)**	(4)	(99)	1	22
	609	425	464	510	439
Contributed surplus	**2**	–	–	–	–
	611	425	464	510	439
Less: dividends	**(218)**	(195)	(191)	(170)	(147)
	393	230	273	340	292
External financing					
Non-controlling interest	**(88)**	(1)	19	25	(80)
Subordinated debentures	**(76)**	(55)	286	326	69
Preferred shares	**75**	(192)	–	175	–
Common shares	**(272)**	(253)	15	12	314
	(361)	(501)	320	538	303
Increase (decrease) in capital	**32**	(271)	593	878	595

TABLE 8. CAPITAL RATIOS

As at October 31 *(millions of dollars)* *(in accordance with BIS guidelines)*	**2003**	2002	2001	2000	1999 (2)
Tier 1 capital					
Common shareholders' equity	**3,722**	3,601	3,624	3,336	2,984
Non-cumulative permanent preferred shares	**375**	300	492	492	317
Innovative instruments	**396**	467	477	457	441
Non-controlling interest	**2**	19	10	11	2
Less: goodwill	**(660)**	(661)	(305)	(325)	(350)
	3,835	3,726	4,298	3,971	3,394
Tier 2 capital					
Subordinated debentures	**1,437**	1,524	1,595	1,290	1,271
General allowance for credit risk	**350**	341	391	343	328
	1,787	1,865	1,986	1,633	1,599
Less: investments in affiliated corporations	**(174)**	(181)	(326)	(329)	(125)
Less: first loss protection	**(79)**	(116)	(82)	(54)	(3)
Total capital	**5,369**	5,294	5,876	5,221	4,865
Risk-weighted balance sheet items					
Cash resources	**1,363**	1,421	1,187	1,160	675
Securities	**2,688**	2,336	2,686	1,921	2,126
Mortgage loans	**4,634**	3,971	3,486	2,816	3,707
Other loans	**18,360**	19,478	23,030	25,328	24,077
Other assets	**5,692**	5,117	6,572	5,528	4,729
	32,737	32,323	36,961	36,753	35,314
General allowance for credit risk	**350**	341	391	343	328
	33,087	32,664	37,352	37,096	35,642
Risk-weighted off-balance sheet items (1)					
Letters of guarantee and documentary credit	**606**	751	1,180	1,292	1,878
Commitments to extend credit	**4,075**	3,872	4,415	4,747	5,137
Interest rate contracts	**100**	161	106	84	65
Foreign exchange contracts	**230**	221	374	331	244
Equity and commodity contracts	**256**	161	148	187	72
	5,267	5,166	6,223	6,641	7,396
Market risk items	**1,707**	1,148	1,121	2,098	1,083
Total risk-weighted assets	**40,061**	38,978	44,696	45,835	44,121
Assets-to-capital multiple (3)	**15.4**	14.2	13.1	14.8	16.6
Ratios					
Tier 1 capital	**9.6%**	9.6%	9.6%	8.7%	7.7%
Total capital	**13.4%**	13.6%	13.1%	11.4%	11.0%

(1) Since 2002, items are as at October 31. For 2001, letters of guarantee and documentary credit as well as commitments to extend credit are as at October 31; all other information is as at September 30. Off-balance sheet items prior to 2001 are as at September 30.

(2) Taking into account the issuance of US $250 million in debentures on November 2, 1999.

(3) The assets-to-capital multiple is calculated by dividing total balance sheet assets and direct credit substitutes by total capital as defined by capital adequacy requirements.

TABLE 9. ASSETS UNDER ADMINISTRATION AND UNDER MANAGEMENT

As at October 31 (millions of dollars)	National Bank Trust	National Bank Financial	National Bank Securities	Altamira Investment Services	Natcan Investment Management	National Bank Discount Brokerage	Bank excluding subsidiaries	2003	2002
Assets under administration									
Institutional	31,650	4,590	–	108	–	–	–	**36,348**	36,812
Personal	–	63,339	–	–	–	7,186	–	**70,525**	60,341
Mutual funds	5,854	4	5,507	2,109	–	–	–	**13,474**	15,537
Mortgage loans sold to third parties	–	–	–	–	–	–	4,217	**4,217**	4,778
Total assets under administration	37,504	67,933	5,507	2,217	–	7,186	4,217	**124,564**	117,468
Assets under management									
Personal	2,334	–	–	–	–	–	–	**2,334**	2,111
Managed portfolios	–	1,599	–	352	12,024	–	–	**13,975**	10,797
Mutual funds	–	–	–	1,958	12,517	–	–	**14,475**	8,296
Total assets under management	2,334	1,599	–	2,310	24,541	–	–	**30,784**	21,204
Total assets under administration/management – 2003	39,838	69,532	5,507	4,527	24,541	7,186	4,217	**155,348**	138,672
Total assets under administration/management – 2002	40,917	59,468	5,160	5,068	17,823	5,458	4,778	138,672	

TABLE 10. DISTRIBUTION OF LOANS BY BORROWER CATEGORY

As at September 30 (millions of dollars)	2003 $	2003 %	2002 $	2002 %	2001 $	2001 %	2000 $	2000 %	1999 $	1999 %
Personal[1]	**5,947**	**13.8**	5,859	14.2	6,100	13.7	7,415	16.3	7,459	16.2
Residential mortgage	**13,753**	**31.9**	12,548	30.4	12,132	27.3	11,503	25.2	13,298	28.9
Non-residential mortgage	**911**	**2.1**	836	2.0	779	1.7	756	1.7	683	1.5
Agricultural	**1,653**	**3.8**	1,486	3.6	1,286	2.9	1,169	2.6	1,060	2.3
Financial institutions	**1,277**	**3.0**	1,583	3.8	1,231	2.8	973	2.1	1,008	2.2
Manufacturing	**3,282**	**7.6**	5,050	12.2	5,733	12.9	5,132	11.3	4,980	10.8
Construction and real estate	**1,291**	**3.0**	1,707	4.1	1,301	2.9	1,388	3.0	1,606	3.5
Transportation and communications	**515**	**1.2**	632	1.5	1,041	2.3	1,013	2.2	877	1.9
Mines, quarries and energy	**774**	**1.8**	601	1.5	742	1.7	585	1.3	608	1.3
Forestry	**264**	**0.6**	252	0.6	293	0.7	289	0.6	238	0.5
Governments	**1,286**	**3.0**	921	2.1	819	1.8	908	2.0	841	1.8
Wholesale trade	**558**	**1.3**	807	2.0	1,682	3.8	1,839	4.0	1,613	3.5
Retail trade	**1,296**	**3.0**	1,281	3.1	1,423	3.2	1,481	3.2	1,498	3.2
Services	**4,059**	**9.4**	3,518	8.6	4,033	9.1	4,022	8.8	4,041	8.8
Securities purchased under resale agreements	**4,333**	**10.1**	3,083	7.5	3,863	8.7	5,364	11.8	4,175	9.1
Other	**1,912**	**4.4**	1,169	2.8	2,011	4.5	1,754	3.9	2,081	4.5
	43,111	**100.0**	41,333	100.0	44,469	100.0	45,591	100.0	46,066	100.0

(1) Includes consumer loans, credit card loans and other personal loans

TABLE 11. REAL ESTATE LOANS

As at October 31	2003		2002		2001		2000		1999	
(millions of dollars)	$	%	$	%	$	%	$	%	$	%
Geographic distribution										
Canada										
Ontario	**69**	**12**	73	13	81	15	101	16	168	24
Quebec	**456**	**80**	399	73	350	64	371	58	335	49
Other	**–**	**–**	3	1	3	1	16	2	18	3
	525	**92**	475	87	434	80	488	76	521	76
United States										
California	**–**	**–**	2	–	29	6	58	9	57	8
New York	**5**	**1**	6	2	7	1	15	2	19	3
Illinois	**–**	**–**	–	–	7	1	7	1	7	1
Other	**42**	**7**	61	11	68	12	78	12	85	12
	47	**8**	69	13	111	20	158	24	168	24
	572	**100**	544	100	545	100	646	100	689	100
By type of project										
Retail	**123**	**22**	147	27	148	27	183	28	186	27
Office	**148**	**26**	202	37	202	37	235	37	216	31
Residential	**245**	**43**	101	18	68	12	93	14	94	14
Industrial	**14**	**2**	31	6	31	6	45	7	55	8
Land	**2**	**–**	5	1	15	3	25	4	29	4
Other	**40**	**7**	58	11	81	15	65	10	109	16
	572	**100**	544	100	545	100	646	100	689	100
Allowances for credit losses	**14**		37		42		53		64	
Real estate loans, net	**558**		507		503		593		625	
As a percentage of shareholders' equity		**14**		13		12		15		19
As a percentage of total loans and acceptances		**1**		1		1		1		1

TABLE 12. DESIGNATED COUNTRIES

As at October 31 (millions of dollars)	2003	2002	2001	2000	1999
Loans and securities, gross					
Brazil	**33**	39	40	38	37
Ivory Coast	**12**	14	15	14	14
Sudan	**–**	–	15	13	15
Nicaragua	**–**	–	14	13	13
Peru	**12**	14	14	13	13
Other	**10**	12	11	12	12
	67	79	109	103	104
Country risk allowance	**23**	26	55	52	53
Loans and securities, net of allowances	**44**	53	54	51	51
Allowance as a % of loans and securities	**34.3%**	32.9%	50.5%	50.5%	51.0%
Loans and securities, net, as a % of shareholders' equity	**1.2%**	1.4%	1.3%	1.3%	1.5%

TABLE 13. IMPAIRED LOANS

As at October 31 (millions of dollars)	**2003**	2002	2001	2000	1999
Private impaired loans, net					
Domestic					
Individuals and small businesses[1]	**46**	62	214	194	216
Commercial	**68**	99	210	233	240
Corporate	**107**	36	15	23	3
Real estate	**25**	44	29	26	33
Other	**–**	–	–	1	–
	246	241	468	477	492
International					
Real estate – United States	**–**	–	3	12	13
– Other	**2**	3	3	4	7
Discontinued operations	**–**	–	117	51	30
	2	3	123	67	50
Total private impaired loans, net[2]	**248**	244	591	544	542
Total impaired loans to designated countries					
Gross	**22**	24	38	35	38
Allowance	**19**	22	38	35	37
Total impaired loans to designated countries, net	**3**	2	–	–	1
Total impaired loans, net	**251**	246	591	544	543
Private impaired loans, gross	**454**	479	932	957	978
Allowance for credit losses	**206**	235	341	413	436
Private impaired loans, net	**248**	244	591	544	542
Provisioning rate	**45.4%**	49.1%	36.6%	43.2%	44.6%
As a percentage of net loans and acceptances					
Domestic – Private	**0.6%**	0.6%	1.2%	1.1%	1.2%
International – Private	**0.1%**	0.1%	1.7%	0.9%	0.7%
International – Designated countries	**0.1%**	0.1%	–%	–%	–%
Total	**0.6%**	0.6%	1.2%	1.1%	1.2%
As a percentage of common shareholders' equity	**6.7%**	6.8%	16.3%	16.3%	18.2%

(1) Including $16 million in net consumer loans in 2003 (2002: $22 million; 2001: $108 million; 2000: $80 million; 1999: $64 million)

(2) The Bank has no loans classified as other past-due loans (90 days and over) except for those already designated as impaired

TABLE 14. INTEREST ON IMPAIRED LOANS

As at October 31 (millions of dollars)	**2003**	2002	2001	2000	1999
Interest on impaired loans					
Domestic	**6**	5	(4)	(6)	(8)
International	**–**	–	–	–	–
	6	5	(4)	(6)	(8)
Average impaired loans					
Domestic	**(203)**	(129)	30	30	45
International	**18**	12	37	15	8
	(185)	(117)	67	45	53
Interest as a % of average impaired loans, net					
Domestic	**(3.2)%**	(3.9)%	(13.3)%	(20.0)%	(17.8)%
International	**– %**	– %	– %	– %	– %
Total	**(3.2)%**	(4.3)%	(6.0)%	(13.3)%	(15.1)%

(millions of dollars, except per share amounts)	Net interest income (taxable equivalent basis)	Other income (taxable equivalent basis)	Provision for credit losses	Operating expenses	Income before discontinued operations and goodwill charges	Discontinued operations	Income before goodwill charges
1st Q	313	285	38	389	96	7	103
2nd Q	298	328	44	412	95	8	103
3rd Q	313	303	44	409	94	11	105
4th Q	300	317	44	405	104	10	114
1999	1,224	1,233	170	1,615	389	36	425
1st Q	300	417	41	476	115	6	121
2nd Q	322	482	46	536	127	10	137
3rd Q	319	573	57	618	126	7	133
4th Q	291	468	40	490	131	6	137
2000	1,232	1,940	184	2,120	499	29	528
1st Q	338	424	43	477	143	(1)	142
2nd Q	352	446	46	503	147	(2)	145
3rd Q	359	453	18	503	174	(26)	148
4th Q	340	535	98	506	163	(16)	147
2001	1,389	1,858	205	1,989	627	(45)	582
1st Q	386	419	245	501	28	118	146
2nd Q	361	466	130	491	122	–	122
3rd Q	358	309	62	508	29	(3)	26
4th Q	368	447	53	540	139	(4)	135
2002	1,473	1,641	490	2,040	318	111	429
1st Q	**368**	**492**	**41**	**548**	**166**	**–**	**166**
2nd Q	**352**	**445**	**41**	**529**	**138**	**–**	**138**
3rd Q	**313**	**555**	**45**	**558**	**161**	**1**	**162**
4th Q	**333**	**601**	**50**	**624**	**157**	**1**	**158**
2003	**1,366**	**2,093**	**177**	**2,259**	**622**	**2**	**624**

(millions of dollars, except per share amounts)	Impaired loans			
	Net private	Designated countries Gross outstanding	Designated countries Allowances	Net total
1st Q	543	40	38	545
2nd Q	548	37	36	549
3rd Q	548	39	38	549
4th Q	542	38	37	543
1999				
1st Q	544	35	35	544
2nd Q	544	35	35	544
3rd Q	545	36	36	545
4th Q	544	35	35	544
2000				
1st Q	554	36	36	554
2nd Q	578	36	36	578
3rd Q	582	36	36	582
4th Q	591	38	38	591
2001				
1st Q	307	9	9	307
2nd Q	311	23	21	313
3rd Q	279	24	22	281
4th Q	244	24	22	246
2002				
1st Q	**228**	**24**	**22**	**230**
2nd Q	**225**	**23**	**22**	**226**
3rd Q	**230**	**23**	**20**	**233**
4th Q	**248**	**22**	**19**	**251**
2003				

QUARTERLY RESULTS

Goodwill charges	Net income	Earnings per share: Before discont. operations & goodwill charges	Earnings per share: Before goodwill charges	Earnings per share: Net	Dividends (thousands of dollars): Common	Dividends (thousands of dollars): Preferred	ROE %
1	102	0.52	0.56	0.55	29,241	6,044	15.9
1	102	0.52	0.56	0.56	29,255	6,044	16.2
2	103	0.51	0.58	0.57	31,031	6,043	15.4
4	110	0.53	0.58	0.56	33,964	6,044	15.1
8	417	2.08	2.28	2.24	123,491	24,175	15.5
4	117	0.58	0.61	0.59	34,036	6,044	15.3
5	132	0.64	0.69	0.66	35,939	6,044	17.2
5	128	0.62	0.67	0.64	35,973	6,636	15.8
5	132	0.65	0.68	0.65	35,995	8,843	15.8
19	509	2.49	2.65	2.54	141,943	27,567	16.0
4	138	0.71	0.71	0.68	36,024	8,844	16.1
5	140	0.73	0.71	0.69	39,843	8,844	16.6
5	143	0.86	0.73	0.70	39,908	8,844	15.9
5	142	0.81	0.73	0.71	40,029	8,844	15.4
19	563	3.11	2.88	2.78	155,804	35,376	16.0
–	146	0.11	0.73	0.73	40,009	6,831	15.0
–	122	0.62	0.62	0.62	45,763	4,831	13.1
–	26	0.13	0.12	0.12	43,213	4,831	2.3
–	135	0.73	0.71	0.71	44,597	4,832	14.5
–	429	1.59	2.18	2.18	173,582	21,325	11.3
–	**166**	**0.88**	**0.88**	**0.88**	**47,555**	**4,831**	**17.6**
–	**138**	**0.73**	**0.73**	**0.73**	**46,870**	**8,165**	**14.8**
–	**162**	**0.88**	**0.89**	**0.89**	**48,973**	**5,725**	**17.3**
–	**158**	**0.87**	**0.87**	**0.87**	**49,117**	**5,725**	**16.4**
–	**624**	**3.36**	**3.37**	**3.37**	**192,515**	**24,446**	**16.5**

Number of common shares (thousands): Average	Number of common shares (thousands): End of period	Per common share: Book value	Per common share: Stock trading range: High	Per common share: Stock trading range: Low	Number of employees (1)	Number of branches in Canada
171,850	172,024	14.27	26.20	22.60	12,315	646
172,153	172,214	14.70	24.50	19.90	12,164	646
172,294	172,320	15.23	23.15	18.55	12,337	648
186,568	188,729	15.81	19.35	17.15	12,175	649
188,925	189,049	16.17	18.60	16.40	12,265	638
189,174	189,201	16.66	22.05	17.25	12,325	636
189,311	189,334	17.11	24.25	20.55	11,884	634
189,444	189,474	17.60	25.25	21.05	11,457	586
189,578	189,607	17.57	29.00	23.00	11,492	571
189,757	189,822	18.08	31.00	26.05	11,675	566
190,062	190,230	18.57	30.60	25.20	12,153	549
190,311	190,331	19.04	30.20	24.25	12,027	525
190,450	190,500	19.56	30.07	24.70	11,381	521
188,794	185,109	19.53	34.93	29.14	11,308	522
184,134	183,256	19.29	33.73	29.01	11,394	522
183,124	182,596	19.72	32.50	27.00	11,442	507
182,728	**181,563**	**20.22**	**33.10**	**29.95**	**11,443**	**491**
178,348	**175,670**	**20.28**	**35.15**	**31.26**	**11,372**	**488**
175,363	**174,507**	**20.77**	**37.41**	**34.55**	**11,697**	**480**
174,585	**174,620**	**21.32**	**41.19**	**34.50**	**11,460**	**477**

(1) On a full-time equivalent basis and excluding the subsidiary National Bank Financial & Co. Inc.

Acceptance

Short-term debt security traded on the money market which a bank guarantees on behalf of a borrower, for a stamping fee.

Allowances for credit losses

Allowances taken to absorb expected credit-related losses (loans, acceptances, letters of guarantee, letters of credit, deposits with other banks and derivatives). Allowances for credit losses include the country risk allowance, specific provision and general allowance for credit risk. They are the sum of the annual provisions less write-offs, net of recoveries.

Asset/liability management

Management of maturities of assets and liabilities as well as off-balance sheet items in such a way as to minimize interest rate risk and foreign exchange risk through appropriate matching.

Assets under administration

Assets in respect of which a financial institution provides administrative services such as custodial services, collection of investment income, settlement of purchase and sale transactions and recordkeeping. Assets under administration, which are beneficially owned by clients, are not reported on the balance sheet of the institution offering such services.

Assets under management

Assets managed by a financial institution which are beneficially owned by clients. Management services are more comprehensive than administrative services, and include selecting investments or offering investment advice. Assets under management, which may also be administered by the financial institution, are not reported on its balance sheet.

Average assets

Daily average of balance sheet assets.

Capital

Amount which would be owed to the holders of shares and subordinated debentures if assets had to be liquidated to reimburse depositors and other creditors. Capital consists of bank debentures, shareholders' equity and non-controlling interest.

Capital ratios

Ratios of capital, as defined by regulatory authorities, to risk-weighted assets. The Bank for International Settlements (BIS) distinguishes between two types of capital: Tier 1 capital, or base capital, consists of common shareholders' equity, non-cumulative preferred shares and non-controlling interest in subsidiaries less goodwill; Tier 2, or supplementary capital, consists of other preferred shares and the eligible portion of subordinated debentures and of the general allowance for credit risk. Total regulatory capital, or total capital, is the sum of the various types of capital less investments in affiliates and first loss protection with respect to asset securitization. In accordance with BIS rules, the Superintendent of Financial Institutions Canada defines a third tier of capital intended specifically to cover market risk, a risk which must also be covered by Tier 1 capital.

Commodity risk

Potential loss due to movements in the price of commodities on which the Bank holds derivatives in its trading portfolio.

Common shareholders' equity

The portion of shareholders' equity that includes only the capital stock paid in by common shareholders (plus retained earnings) and represents the amount that would be owed to common shareholders if assets had to be liquidated to reimburse depositors and other creditors.

Credit derivative

Derivative instruments based on financial instruments that transfer the credit risk and return related to a given asset to another party, without actually transferring the underlying asset, and offer protection against credit risk (credit swaps, for example).

Credit risk

Potential loss resulting from the inability or unwillingness of a counterparty to honour its contractual obligations with respect to a loan or other type of credit. Credit risk can arise because of specific counterparty-related conditions, or represent a consequence of market risk.

Derivative instruments (derivatives)

Financial contracts whose value is "derived" from interest rates, foreign exchange rates or equity prices. Derivatives are used in treasury operations as well as for hedging regular financial instruments. The most common types of derivatives include foreign currency or interest rate futures, swaps and options.

Earnings per share

Net income available to holders of common shares, namely, net income less dividends on preferred shares, divided by the average number of common shares outstanding during the period in question.

Equity risk

Potential loss arising from movements in the price of shares held by the Bank or its subsidiaries.

Foreign currency future

Contractual obligation to buy or sell, on or before a specified future date, a given quantity of foreign currency at a given exchange rate.

Foreign currency and interest rate swaps

Transactions in which counterparties agree to exchange, for a specified period, currencies and/or streams of interest payments (generally by exchanging a fixed rate for a floating one) based on an amount of notional principal.

Foreign currency or interest rate option

The right, but not the obligation, to buy (call option) or sell (put option) at or by a set date a given amount of foreign currency or securities at a set price (strike price).

Foreign exchange risk

Potential loss caused by currency rate movements and the subsequent decline in the value of a security or other financial instrument denominated in foreign currencies that is held by the Bank.

Forward rate agreement

Contractual obligation to buy or sell, on or before a specified future date, a given quantity of securities at a given interest rate.

Impaired loan

A loan is considered impaired when, in the opinion of management, there is reasonable doubt as to the payment of principal or interest. Any loan where payments are 90 days past due falls into this category, unless there is no doubt as to the collectibility of principal and interest.

Interest rate risk

Potential loss caused by changes in interest rates and resulting in mismatched maturities of productive assets and liabilities or, more generally, reducing the value of a financial instrument held by the Bank.

Investment account

Securities purchased with the intention of holding them to maturity or until conditions render alternative long-term investments more attractive. The investment account consists primarily of equity securities and debt securities. Equity securities are stated at their acquisition cost unless the Bank has a significant influence over the entity in question. Debt securities are stated at unamortized cost.

Liquid assets

Assets held as cash or securities easily convertible to cash, such as deposits with other banks and securities.

Liquidity risk

Potential difficulty in meeting a demand for cash or funding obligations as they come due.

Market risk

Potential loss from changes in the value of financial instruments, specifically from changes in interest rates, foreign exchange rates, equity prices and commodity prices. Changes in these prices result in exposure to four main categories of market risk: interest rate risk, foreign exchange risk, equity risk and commodity risk.

Matching

The process of equating asset and liability maturities as well as off-balance sheet items so as to minimize interest rate risk and foreign exchange risk. Matching is also known as "asset/liability management".

Net interest income

Difference between interest and dividends earned on total assets and interest expenses paid on total liabilities. In other words, net interest income is the difference between what the Bank earns on assets such as loans and securities, and what it pays on liabilities such as deposits. Average net interest margin is equal to the ratio of net interest income to average assets.

Notional principal

Contract amount used as a reference point to calculate payments for off-balance sheet instruments such as forward rate agreements and interest rate swaps. It is considered "notional" as the principal amount itself never changes hands.

Obligations related to securities sold under repurchase agreements

Financial obligations related to securities sold under an agreement according to which they will be repurchased on a specified date and at a specified price. Such an agreement is a form of short-term funding.

Operational risk

Potential loss resulting from inadequate or failed processes, technology or human performance, or from external events.

Other income

Includes all revenue except for interest and dividend income. It consists of such items as deposit and payment service charges, lending fees, capital market revenues, card service revenues, investment management and custodial fees, mutual fund revenues and securitization revenues.

Point

Unit of measure equal to one percent (1%).

Provision for credit losses

Amount added to the allowance for credit losses to bring it to a level that management considers adequate, taking into account write-offs and recoveries with respect to specific loans.

Return on common shareholders' equity (or ROE)

Net income, less dividends on preferred shares, expressed as a percentage of the average value of common shareholders' equity.

Risk weighting

Risk-weighting factors are applied to the face value of certain assets in order to present comparable risk levels. This procedure is also used to recognize the risk in off-balance sheet instruments by adjusting the notional value to balance sheet (or credit) equivalents and then applying the appropriate risk-weighting factors. Total risk-weighted assets are used in calculating the various capital ratios according to the rules of the Bank for International Settlements (BIS).

Securities purchased under reverse repurchase agreements

Securities purchased by the Bank from a client under an agreement according to which they will be resold to the same client on a specified date and at a specified price. Such an agreement is a form of short-term collateralized lending.

Securitization

Transaction in which certain assets, such as mortgages or credit card receivables, are sold to an entity which finances their acquisition by issuing negotiable securities.

Shareholders' equity

The sum of the capital stock paid by shareholders and retained earnings. Shareholders' equity is the amount that would be owed to shareholders if assets had to be liquidated to reimburse depositors and other creditors.

Subordinated debenture

Unsecured debt instrument issued by a bank and for which repayment, in the event of liquidation, ranks behind the claims of depositors and certain other creditors. Convertible debentures can be exchanged for shares at the option of the holder, the issuer or both.

Taxable equivalent basis

Calculation method used to gross up certain tax-exempt income (primarily dividends) by the income tax that would have been payable had it been taxable. The gross-up of such income permits a uniform comparison of the yield on the various types of assets, such as those comprising net interest income, regardless of their tax treatment.

Trading account

Securities purchased for resale in the short term. This account is recorded on the balance sheet at its fair value.

Yield curve

Graphic representation of interest rates in effect on a given date for different maturities. Interest rates vary according to the risks factored in by the market. Interest rates are generally lower for short-term maturities than for long-term maturities. The curve may be inverted, i.e., when rates for short-term maturities are higher than for long-term maturities.

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CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S REPORT

The consolidated financial statements of National Bank of Canada (the "Bank") as well as the other financial information presented in the Annual Report were prepared by management, which is responsible for their integrity, including material estimates and judgments incorporated therein. The consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles, other than the accounting for the general allowance for credit risk which, until January 31, 2002, was in accordance with the accounting treatment prescribed by the Superintendent of Financial Institutions Canada (the "Superintendent") under the *Bank Act*, as described in Note 1. Since February 1, 2002, the consolidated financial statements of the Bank have been prepared in accordance with Canadian generally accepted accounting principles, including the accounting treatment prescribed by the Superintendent.

Management maintains the necessary accounting and control systems in discharging its responsibility and ensuring that the Bank's assets are safeguarded. These controls include standards for hiring and training personnel, defining and evaluating tasks and functions, operating policies and procedures, and budget controls.

The Board of Directors (the "Board") is responsible for examining and approving the financial information which appears in the Annual Report. Acting through the Audit and Risk Management Committee (the "Committee"), the Board also oversees the presentation of the consolidated financial statements and the maintenance of accounting and control systems.

The Committee, composed of directors who are neither officers nor employees of the Bank, is responsible for the ongoing evaluation of internal control procedures, for examining the consolidated financial statements, and for recommending them to the Board for approval. A team of internal auditors reports to the Committee and makes presentations to it on a regular basis.

The control systems are reinforced by the observance of the laws and regulations which apply to the Bank's operations. The Superintendent regularly examines the affairs of the Bank to ensure that the provisions of the *Bank Act* with respect to the safety of the depositors and shareholders of the Bank are being observed and that the Bank is in a sound financial condition.

The independent auditors, whose report follows, were appointed by the shareholders on the recommendation of the Board. They were given full and unrestricted access to the Committee to discuss matters related to their audit and the reporting of information.

Réal Raymond

President and
Chief Executive Officer

Michel Labonté

Senior Vice-President
Finance, Technology and Corporate Affairs

Montreal, November 28, 2003

AUDITORS' REPORT

To the Shareholders of National Bank of Canada

We have audited the Consolidated Balance Sheets of National Bank of Canada (the "Bank") as at October 31, 2003 and 2002 and the Consolidated Statements of Income, Changes in Shareholders' Equity and Cash Flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Note 1 describes the Bank's accounting policy concerning the general allowance for credit risk. As explained in Note 28, the Superintendent of Financial Institutions Canada required the creation of a general allowance for credit losses which, as at October 31, 2001, exceeded the amount required in accordance with Canadian generally accepted accounting principles by $97 million. Since January 31, 2002, the Bank's general allowance for credit risk has been in accordance with Canadian generally accepted accounting principles and with the accounting treatment of the Superintendent of Financial Institutions Canada.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Bank as at October 31, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles, other than for the impact of the general allowance for credit losses required by the Superintendent of Financial Institutions Canada as described in the previous paragraph.

Samson Bélair/Deloitte & Touche s.e.n.c.r.l.
Chartered Accountants

PricewaterhouseCoopers LLP
Chartered Accountants

Montreal, November 28, 2003

CONSOLIDATED STATEMENT OF INCOME

Year ended October 31 *(millions of dollars except per share amounts)*	Note	2003	2002
Interest income and dividends			
Loans		**1,872**	1,906
Securities		**526**	511
Deposits with financial institutions		**131**	174
		2,529	2,591
Interest expense			
Deposits		**1,030**	979
Subordinated debentures		**105**	110
Other		**70**	58
		1,205	1,147
Net interest income		**1,324**	1,444
Other income			
Capital market fees		**544**	539
Deposit and payment service charges		**189**	186
Trading revenues		**335**	74
Losses on investment account securities, net	23	**(6)**	(103)
Card service revenues		**49**	47
Lending fees		**204**	181
Acceptances, letters of credit and guarantee		**63**	63
Securitization revenues		**204**	204
Foreign exchange revenues		**66**	67
Trust services and mutual funds		**210**	160
Other		**180**	166
		2,038	1,584
Total revenues		**3,362**	3,028
Provision for credit losses	6	**177**	490
Operating expenses			
Salaries and staff benefits		**1,287**	1,147
Occupancy		**192**	191
Computers and equipment		**312**	305
Communications		**80**	77
Professional fees		**112**	99
Other		**276**	221
		2,259	2,040
Income before income taxes, non-controlling interest and discontinued operations		**926**	498
Income taxes	16	**277**	150
		649	348
Non-controlling interest		**27**	30
Income before discontinued operations		**622**	318
Discontinued operations	26	**2**	111
Net income		**624**	429
Dividends on preferred shares	14	**25**	21
Net income available to common shares		**599**	408
Average number of common shares outstanding (thousands)	17		
Basic		**177,751**	186,608
Diluted		**179,235**	187,727
Income before discontinued operations per common share	17		
Basic		**3.36**	1.59
Diluted		**3.33**	1.59
Net income per common share	17		
Basic		**3.37**	2.18
Diluted		**3.34**	2.18
Dividends per common share	14	**1.08**	0.93

CONSOLIDATED BALANCE SHEET

As at October 31 *(millions of dollars)*	Note	2003	2002
ASSETS			
Cash resources			
Cash and deposits with Bank of Canada		313	245
Deposits with financial institutions		6,734	6,619
		7,047	6,864
Securities			
Investment account	4	6,998	6,863
Trading account	4	19,151	13,179
Loan substitute		30	76
		26,179	20,118
Loans	5 and 6		
Residential mortgage		13,976	12,867
Personal and credit card		6,101	5,561
Business and government		18,934	20,680
Securities purchased under reverse repurchase agreements		3,955	2,366
Allowance for credit losses		(630)	(662)
		42,336	40,812
Other			
Customers' liability under acceptances		3,334	2,988
Assets held for disposal	26	–	313
Premises and equipment	7	263	255
Goodwill	8	660	661
Intangible assets	8	183	184
Other assets	9	2,421	2,398
		6,861	6,799
		82,423	74,593
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	10		
Personal		23,512	22,607
Business and government		22,700	22,582
Deposit-taking institutions		5,251	6,501
		51,463	51,690
Other			
Acceptances		3,334	2,988
Obligations related to securities sold short		8,457	5,542
Obligations related to securities sold under repurchase agreements		8,674	4,416
Other liabilities	11	4,484	3,978
		24,949	16,924
Subordinated debentures	12	1,516	1,592
Non-controlling interest		398	486
Shareholders' equity			
Preferred shares	14	375	300
Common shares	14	1,583	1,639
Contributed surplus	15	2	–
Retained earnings		2,137	1,962
		4,097	3,901
		82,423	74,593

Réal Raymond
President and
Chief Executive Officer

Pierre Bourgie
Director

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Year ended October 31 (millions of dollars)	Note	2003	2002
Preferred shares at beginning		300	492
Issuance of preferred shares, Series 15		200	–
Redemption of preferred shares, Series 10, 11 and 12 for cancellation		(125)	(192)
Preferred shares at end	14	375	300
Common shares at beginning		1,639	1,668
Issuance of common shares		26	53
Repurchase of common shares for cancellation		(82)	(82)
Common shares at end	14	1,583	1,639
Contributed surplus at beginning		–	–
Stock option expense		2	–
Contributed surplus at end	15	2	–
Retained earnings at beginning		1,962	1,956
Net income		624	429
Dividends			
Preferred shares	14	(25)	(21)
Common shares	14	(193)	(174)
Income taxes related to dividends on preferred shares, Series 10, 11, 12, 13 and 15		–	(2)
Premium paid on common shares repurchased for cancellation	14	(216)	(224)
Foreign currency translation adjustment, net of income taxes		(11)	(2)
Share issuance expenses, net of income taxes		(4)	–
Retained earnings at end		2,137	1,962
Shareholders' equity		4,097	3,901

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended October 31 (millions of dollars)	2003	2002
Cash flows from operating activities		
Net income	624	429
Adjustments for:		
Provision for credit losses excluding discontinued operations	177	490
Provision for credit losses attributed to discontinued operations	1	(51)
Amortization of premises and equipment	49	58
Future income taxes	5	(24)
Translation adjustment on foreign currency subordinated debentures	(76)	(10)
Impairment charge	–	139
Gains on sale of investment account securities, net	(1)	(41)
Gains on asset securitizations	(87)	(46)
Stock option expense	2	–
Change in interest payable	72	(153)
Change in interest receivable	(34)	(25)
Change in income taxes payable	208	164
Change in unrealized losses and net amounts payable on derivative contracts	10	124
Change in trading account securities	(5,972)	(2,187)
Excess of contributions over expenses for employee pension plans	(255)	–
Change in other items	554	(234)
	(4,723)	(1,367)
Cash flows from financing activities		
Change in deposits	(227)	254
Redemption and maturity of subordinated debentures	–	(45)
Issuance of common shares	26	53
Issuance of preferred shares	200	–
Repurchase of common shares for cancellation	(298)	(306)
Redemption of preferred shares for cancellation	(125)	(192)
Dividends paid on common shares	(235)	(174)
Dividends paid on preferred shares	(25)	(21)
Change in obligations related to securities sold short	2,915	163
Change in obligations related to securities sold under repurchase agreements	4,258	9
Change in other items	(16)	(4)
	6,473	(263)
Cash flows from investing activities		
Change in loans	(1,528)	(3,267)
Proceeds from securitization of assets	1,729	1,880
Proceeds from sale of guaranteed loans	–	2,540
Purchases of investment account securities	(21,342)	(21,432)
Sales of investment account securities	21,220	21,329
Change in securities purchased under reverse repurchase agreements	(1,589)	1,675
Net acquisitions of premises and equipment	(57)	(63)
	(1,567)	2,662
Increase in cash and cash equivalents	183	1,032
Cash and cash equivalents at beginning	6,864	5,832
Cash and cash equivalents at end	7,047	6,864
Cash and cash equivalents		
Cash and deposits with Bank of Canada	313	245
Deposits with financial institutions	6,734	6,619
	7,047	6,864
Interest and dividends paid	1,395	1,519
Income taxes paid	126	101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31
(millions of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of National Bank of Canada (the "Bank") were prepared in accordance with section 308(4) of the *Bank Act*, which states that Canadian generally accepted accounting principles (GAAP) are to be applied unless otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"). These principles differ in some regards from United States GAAP, as explained in Note 29.

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of balance sheet assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the period covered by the consolidated financial statements. Actual results could differ from those estimates.

The significant accounting policies used in preparing these consolidated financial statements are summarized below. The Superintendent has prescribed an accounting treatment for the general allowance for credit risk which, until January 31, 2002, was not in compliance with Canadian GAAP; a comparison of this treatment is presented in Note 28. Since February 1, 2002, the consolidated financial statements are in accordance with Canadian GAAP, including the accounting treatments prescribed by the Superintendent.

The consolidated financial statements of the Bank include the assets, liabilities and operating results of the Bank and all its subsidiaries after the elimination of intercompany transactions and balances.

Investments in companies over which the Bank has the ability to exercise significant influence are accounted for using the equity method and are included in "Other Assets" in the Consolidated Balance Sheet. The Bank's share of income (losses) from these companies is included in interest income and dividends in the Consolidated Statement of Income.

Translation of foreign currencies
Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at month-end exchange rates at the dates of the consolidated financial statements. Revenues and expenses are translated using average monthly exchange rates. Translation gains and losses, realized or unrealized, are recorded in the current year Consolidated Statement of Income.

Assets and liabilities of foreign operations with a functional currency other than the Canadian dollar are translated into Canadian dollars at month-end exchange rates at the balance sheet dates, while revenues and expenses are translated using the average monthly exchange rates. Exchange gains and losses arising from translation of foreign operations with a functional currency other than the Canadian dollar, and the results of hedging these positions, net of income taxes, are reported in retained earnings.

Cash resources
Cash resources consist of cash and cash equivalents. Cash includes cash on hand, bank notes and coin, while cash equivalents consist of deposits with the Bank of Canada, deposits with financial institutions, and cheques and other items in transit.

Securities
Securities are divided into three major categories: investment account securities, trading account securities and loan substitutes.

Investment account securities are purchased with the intention of holding them to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at their acquisition cost if the Bank does not have the ability to exercise a significant influence over the investee, while debt securities are stated at their unamortized acquisition cost. Premiums and discounts on debt securities are amortized using the effective yield method over the period to maturity or disposal of the security. Gains or losses realized on the disposal of securities and the amortization of premiums and discounts are recorded in income. Any loss in the value of investment account securities that is other than a temporary impairment is recorded in income.

Trading account securities are purchased for resale in the short term. They are presented at their fair value based on publicly disclosed market prices. In the event market prices are not available, the fair value is estimated on the basis of the market prices of similar securities. Realized and unrealized gains or losses on these securities are recorded in income.

Loan substitutes are customer financing which have been structured as after-tax securities rather than conventional loans in order to provide the issuers with a borrowing rate advantage. These securities are accounted for in the same manner as loans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31
(millions of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Loans

A loan, other than a credit card loan, is considered impaired when, in the opinion of management, there is reasonable doubt as to the ultimate collectibility of a portion of principal or interest or where payment of interest is contractually 90 days past due, unless there is no doubt as to the collectibility of principal and interest. A loan may revert to performing status only when principal and interest payments have become fully current. Credit card loans are written off when payments are more than 180 days in arrears.

When a loan is deemed impaired, interest ceases to be recorded, and the carrying value of the loan is adjusted to its estimated realizable amount by writing off all or part of the loan and/or by taking an allowance for credit losses.

The Canadian Institute of Chartered Accountants (CICA) made amendments to Section 3025 "Impaired Loans" in order to bring the accounting treatment of foreclosed assets in line with the new rules for the presentation of long-lived assets held for disposal contained in Section 3475 "Disposal of Long-Lived Assets and Discontinued Operations". The amendments to Section 3025 apply to all foreclosures in settlement of an impaired loan on or after May 1, 2003. The new rules divide foreclosures into two categories: foreclosed assets held for sale, and foreclosed assets held for use. Assets foreclosed before May 1, 2003 and classified under the old standards as being held for sale have been reclassified as assets held for use when they did not meet the new criteria.

Foreclosed assets held for sale in settlement of an impaired loan are presented at fair value less selling costs at the date of foreclosure. Any difference between the carrying value of the loan before foreclosure and the initially estimated realizable amount of the assets is recorded as a charge to "Provision for credit losses". For any subsequent change in their fair value, gains or losses are reported under "Other income" in the Consolidated Statement of Income. Gains may not exceed losses in value recognized after the date of foreclosure. Revenues generated by foreclosed assets and operating expenses are included in the Consolidated Statement of Income.

Foreclosed assets held for use in settlement of an impaired loan are measured at their fair value at the date of foreclosure. Any difference in the carrying value of the loan exceeding fair value is recorded under "Provision for credit losses". These assets are subsequently presented at the date of foreclosure as premises and equipment, and are subject to the same accounting rules.

Loan origination fees, including loan commitment, restructuring and renegotiation fees, are considered an integral part of the yield earned on the loan and are deferred and amortized to interest income over the term of the loan. Commitment fees are treated on the same basis if there is reasonable expectation that the commitment will result in a loan; the fees are then amortized to interest income over the term of the loan. Otherwise, the fees are included in other income over the term of the commitment. Loan syndication fees are recognized in other income, unless the yield on any loan retained by the Bank is less than that of other comparable lenders involved in the financing. In such cases, an appropriate portion of the fees is deferred and amortized to interest income over the term of the loan.

Loans also include securities purchased under reverse repurchase agreements which the Bank has purchased and simultaneously committed to resell to the initial buyer at a specified price on a specified date. Since ownership of the securities does not change, the transaction is treated as a loan by the Bank. The securities are recorded at cost and the related interest income is recorded on an accrual basis.

Allowance for credit losses

The allowance for credit losses reflects management's best estimate of losses in its loan portfolio as at the balance sheet date. The allowance relates primarily to loans, but may also cover the credit risk associated with deposits with other banks, derivative products, loan substitute securities and other credit instruments such as acceptances, letters of guarantee and letters of credit. The allowance for credit losses, which consists of the specific allowance for impaired loans, the allowance for designated countries and the general allowance for credit risk, is increased by the provision for credit losses which is charged to income and reduced by the amount of write-offs, net of recoveries.

The specific allowance for impaired loans is established for all such loans for which the impairment could be estimated individually, reducing them to their estimated realizable amounts. The estimated realizable amounts are measured by discounting expected future cash flows. For groups of impaired loans consisting of large numbers of homogeneous balances of relatively small amounts, the realizable amounts are determined by discounting expected future cash flows for each group of loans by using formulas that take into account past loss experience, economic conditions and other relevant circumstances. No specific allowance is established for credit card loans, as balances are written off when no payments have been received within 180 days.

The allowance for credit losses in relation to loans to countries designated by the Superintendent is revalued on an ongoing basis according to risk exposure in the various countries and their related economic conditions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31
(millions of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

The allocated general allowance for credit risk represents management's best estimate of probable losses within the portion of the loan portfolio that has not yet been specifically identified as impaired. This amount is established through the application of expected loss factors to outstanding and undrawn facilities. The allocated general allowance for corporate and government loans is based on the application of expected default and loss factors, determined by statistical loss migration analysis according to loan type. For more homogeneous portfolios, such as residential mortgages, small and medium-sized enterprise loans, personal loans and credit card loans, the determination of the allocated general allowance is performed on a product portfolio basis. The losses are determined by the application of loss ratios determined through the statistical analysis of loss migration over an economic cycle. The unallocated general allowance for credit risk is based on management's assessment of probable losses in the portfolio that have not been captured in the determination of the specific allowance for credit losses, the allowance for designated countries or the allocated general allowance. This assessment takes into account general economic and business conditions, recent loan loss experience, and trends in credit quality and concentrations. This allowance also reflects model and estimation risks. This allowance does not represent future losses or serve as a substitute for the allocated general allowance.

Asset securitization
The Bank enters into securitization transactions involving residential and commercial mortgage loans, consumer loans, personal loans and credit card receivables by selling them to special purpose entities or trusts that issue securities to investors. These transactions are recorded as sales when the Bank is deemed to have surrendered control over the assets sold and to have received consideration other than beneficial interests in these assets. Prior to July 1, 2001, securitization transactions were recorded in accordance with the Emerging Issues Committee's Abstract No. 9 entitled "Transfer of Receivables" (EIC No. 9) of the CICA Handbook. For securitization transactions carried out on or after July 1, 2001, the Bank has applied CICA Accounting Guideline No. 12 entitled "Transfer of Receivables". Prior to July 1, 2001, gains on securitization transactions were amortized to income over time, while losses were recognized as incurred. For securitization transactions that provide for the payment of the proceeds of sale when the sum of interest and fees collected from borrowers exceeded the yield paid to investors, these proceeds were considered income when the amount could legally be paid by the trust. Subsequent to July 1, 2001, gains and losses are recognized in income on the date of the transaction. Transactions entered into prior to July 1, 2001, or completed after that date pursuant to commitments to sell prior to July 1, 2001, have not been restated and the deferred gains and other income will continue to be recorded under the original terms of the agreements.

As part of securitization transactions, the Bank may retain interests in the securitized loans in the form of one or more subordinated tranches, rights to future excess interest and in some cases, a cash reserve account. Gains or losses on securitizations, net of transaction fees, are reported in the Consolidated Statement of Income under "Securitization revenues". Gains or losses on the sale of loans depend in part on the allocation of the previous carrying amount of the loans between the assets sold and the retained interests. This allocation is based on their relative fair value at the date of transfer. Fair value is based on market prices, when available. However, as quotes are usually not available for retained interests, fair value is determined using the present value of future expected cash flows estimated in relation to assumptions on credit losses, prepayment rates, forward yield curves, and discount rates commensurate with the risks involved.

Retained interests are recorded at cost and included in investment account securities. Any impairment in the value of retained interests that is other than temporary is recorded in the Consolidated Statement of Income under "Securitization revenues".

The Bank generally transfers the loans on a fully serviced basis. At the time they are transferred, a servicing liability is recognized and amortized to income over the term of the transferred assets. This servicing liability is presented in the Consolidated Balance Sheet under "Other liabilities".

GUARANTEED MORTGAGE LOANS The Bank finances a portion of its residential mortgage loan portfolio through the mortgage-backed securities program provided for in the *National Housing Act*. Under this program, the Bank pools eligible mortgage loans and sells ownership rights in these pools to investors. Investors are paid a pre-set coupon rate and the principal from the underlying mortgages. The Canada Mortgage and Housing Corporation (CMHC) unconditionally guarantees the payments to the investors. The Bank continues to service the securitized mortgage loans.

The Bank is committed to the CMHC to make sufficient funds regularly available to the paying agent and transfer agent to pay the amounts due to investors, whether or not the mortgagors have made their payments. Moreover, the Bank must place all funds due to investors at maturity of the securities at the disposal of the paying agent and transfer agent. Should the Bank default, the CMHC can assign the servicing of the securitized loans to another servicer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31
(millions of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Acceptances and customers' liability under acceptances
The potential liability of the Bank under acceptances is recorded as a liability in the Consolidated Balance Sheet. The Bank's potential recourse to customers is recorded as an equivalent offsetting asset. Fees are recorded in "Other income" in the Consolidated Statement of Income.

Premises and equipment
Premises, furniture, equipment and leasehold improvements are recognized at cost less accumulated amortization and are amortized over their estimated useful lives according to the following methods and rates. Land is recorded at cost.

	Methods	Rates
Buildings	*(a)* or *(b)*	2% to 14%
Equipment and furniture	*(a)* or *(b)*	20% to 50%
Leasehold improvements	*(a)*	*(c)*

(a) straight-line
(b) diminishing balance
(c) over the lease term plus the first renewal option

Goodwill
The purchase method is used to account for the acquisition of subsidiaries. The excess of the price paid for the acquisition of subsidiaries over the fair value of the net assets acquired is referred to as goodwill, which is tested for impairment annually, or more frequently if changes in circumstances indicate that the asset might be impaired, to ensure that the fair value remains greater than or equal to the carrying value. The excess of the carrying value over the fair value is charged to income for the period during which the impairment is determined.

Intangible assets
The intangible assets of the Bank arising from the acquisition of subsidiaries or groups of assets are mainly composed of management contracts and are recorded at their fair value at the time of acquisition. Intangible assets with an indefinite life, are not amortized, but are tested for impairment annually, or more frequently if changes in circumstances indicate a potential impairment. The impairment test consists of comparing the fair value of the asset with its carrying value. The excess of the carrying value over the fair value is charged to income in the period during in which the impairment is determined. Intangible assets with a finite useful life are amortized over their useful life. These assets are written down when the long-term expectation is that their carrying values will not be recovered. Any excess of the carrying value over the net recoverable value is charged to income.

Obligations related to securities sold short
These liabilities represent the Bank's obligation to deliver securities it sold but did not own at the time of sale. Obligations related to securities sold short in trading accounts are recorded under liabilities at their fair value. Realized and unrealized gains and losses on these securities are recorded in "Trading revenues" in the Consolidated Statement of Income. Securities sold short that are used in hedging operations are recorded at their unamortized cost in the Consolidated Balance Sheet. Gains and losses realized on these securities are included in the Consolidated Statement of Income concurrently with the gains and losses from the hedged items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31
(millions of dollars)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Obligations related to securities sold under repurchase agreements
These liabilities represent securities which the Bank has sold and simultaneously committed to repurchase from the initial buyer at a specified price on a specified date. Since ownership of the securities does not change, the transaction is treated as a loan to the Bank. The securities are recorded at cost and the interest expense is recorded on an accrual basis.

Income taxes
The Bank provides for income taxes under the tax liability method. The Bank determines future income tax assets and liabilities based on the differences between the carrying values and tax bases of assets and liabilities, according to income tax laws and income tax rates enacted or substantively enacted on the date the differences are reversed. Future income tax assets represent tax benefits related to deductions the Bank may claim to reduce its taxable income in future years. No future income tax expense is recorded for the portion of retained earnings of foreign subsidiaries that is permanently reinvested.

Derivative financial instruments
The Bank offers various types of derivatives to accommodate the needs of its clients in managing their risk exposure and their investment and trading activities. It also uses derivatives in its own risk management and trading activities.

The main derivative instruments used by the Bank are over-the-counter foreign exchange forward contracts, forward rate agreements, credit derivatives, swaps and options, exchange traded futures and options.

Derivatives used to accommodate the needs of clients and to enable the Bank to generate income from its trading activities are recognized at their fair value and the resulting gains or losses are recorded in "Other income". When derivative instruments are used to hedge assets and liabilities, notably against interest rate or exchange rate risk, and they qualify as an effective hedge, the accrual method is used. The gains and losses realized at early settlement of hedging contracts are deferred and amortized over the remaining life of the hedged item. The accrued amounts payable and receivable as well as the deferred gains and losses related to these contracts are recorded as "Other assets" or "Other liabilities".

Insurance revenues and expenses
Premiums less claims and changes in actuarial liabilities are reflected in "Other income". Income from securities held by the insurance subsidiaries is included in "Interest income and dividends" in the Consolidated Statement of Income and under "Securities" in the Consolidated Balance Sheet, except for amortization of deferred gains and losses on the disposal of securities, which is included in "Other income". Administrative costs are recorded in "Operating expenses" in the Consolidated Statement of Income.

Assets under administration and assets under management
The Bank administers and manages assets owned by clients but which are not reflected on the Consolidated Balance Sheet. Asset management fees are earned for providing investment and mutual fund management services. Asset administration fees are earned for providing trust, estate administration and custodial services. Fees are recognized and reported in "Other income" as the services are provided.

Employee future benefits
The Bank records its obligations under employee benefit plans and the related costs, net of the assets of the plans. The cost of pensions and other post-retirement benefits earned by employees is established by calculating the sum of the following: the current period benefit cost (actuarial method); the notional interest on the actuarial liability of the plans and the expected return on the plan assets; the amortization, over the estimated average remaining service lives of employees, of actuarial gains and losses, and the amounts resulting from the changes made to the assumptions and the plans. The cumulative surplus of funding contributions over the amounts recorded as expenses is recognized in "Other assets" while the cumulative cost of other post-retirement benefits, net of disbursement, is recognized in "Other liabilities". The investments of the plans are valued at their market related values for the purpose of calculating the expected return.

Past service costs arising from amendments to the plans are amortized on a straight-line basis over the average remaining service period of active employees on the date of the amendments. The portion of the actuarial net gain or loss which exceeds 10% of either the accrued benefit obligation or the fair value of the plan assets, whichever is higher, is amortized over the average remaining service period of active employees. This average remaining service period is 14 years. When the restructuring of an employee benefit plan gives rise to both a curtailment and a settlement of obligations, the curtailment is accounted for prior to the settlement.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Stock-based compensation plans
On November 1, 2002, the Bank adopted the requirements of the CICA standard entitled "Stock-Based Compensation and Other Stock-Based Payments", which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services.

Stock Appreciation Rights (SARs) Plan
In accordance with this new standard, SARs are recorded at fair value by measuring, on an ongoing basis, the excess of the stock price over the exercise price of the option. The new standard applies to SARs outstanding at the date of the adoption of the recommendations and to subsequent awards. The Bank's obligation, which results from the variation in the stock's market price, is recognized in income on a straight-line basis over the vesting period, namely, four years, and a corresponding amount is included in "Other liabilities". When the vesting period expires and until the SARs are exercised, the change in the obligation attributable to variations in the stock price is recognized by increasing or decreasing the compensation expense for the period in which the variations occur. With regard to SARs outstanding as at the date of the adoption of the recommendations, the application of the new standard's transitional provisions, taking into account the liability previously recognized by the Bank, did not require any cumulative adjustment to the balance of retained earnings as at November 1, 2002.

Stock Option Plan
The Bank has adopted the fair value-based method to account for stock options awarded subsequent to November 1, 2002. The fair value of the stock options is estimated on the grant date using the Black-Scholes model.

This cost is recognized using the straight-line method over the vesting period, namely, four years, as an increase in the compensation expense and contributed surplus. When the options are exercised, the proceeds and the contributed surplus are credited to common share paid-up capital. For options awarded before November 1, 2002, no compensation expense is recognized. Any consideration paid by employees upon exercise of stock options is also credited to common share paid-up capital. The exercise price of each option awarded is equal to the closing price of the common shares of the Bank on the Toronto Stock Exchange on the business day preceding the date of the award.

Comparative figures
Certain comparative figures have been restated to conform with the presentation adopted in the current year.

2. RECENT ACCOUNTING STANDARDS PENDING ADOPTION

Hedging relationships
CICA Accounting Guideline No 13, "Hedging Relationships" (AcG-13), identifies the circumstances in which hedge accounting is appropriate and deals with the identification, designation, documentation and effectiveness of hedging relationships and the discontinuance of hedge accounting, but does not cover hedge accounting techniques. The provisions of the new Guideline apply to fiscal years beginning on or after July 1, 2003. The Bank will adopt this Accounting Guideline effective November 1, 2003. The monetary or derivative financial instruments used in risk management and qualifying for hedge accounting will be recorded using the hedge accounting method described in Note 1.

When the hedging relationship no longer qualifies as an effective hedge, hedge accounting will be discontinued prospectively, and the financial instrument will be carried at fair value on the Consolidated Balance Sheet as of the date hedge accounting was discontinued. Any subsequent changes in fair value will be recognized in "Other income", in conformity with EIC-128 "Accounting for Trading, Speculative or Non-Hedging Derivative Financial Instruments". Where the financial instrument once again qualifies as a hedging relationship, hedge accounting will be applied again on the new date of designation.

Financial instruments that do not qualify for hedge accounting under AcG-13 will be carried at fair value on the Consolidated Balance Sheet as at November 1, 2003. The resulting $16 million transitional gain will be deferred and recognized in income over the remaining term of the financial instruments.

Variable interest entities
In June 2003, the CICA issued Accounting Guideline No 15 "Consolidation of Variable Interest Entities" (AcG-15). This Guideline is harmonized with the corresponding U.S. standard and includes guidance on determining the primary beneficiary of variable interest entities and the beneficiary that will therefore have to consolidate them. The Guideline will apply to all annual and interim periods beginning on or after November 1, 2004, except for certain disclosure requirements which apply to periods beginning on January 1, 2004. The Bank is currently evaluating the impact of this new Accounting Guideline.

Impairment of long-lived assets
In 2002, the CICA issued a new standard entitled "Impairment of Long-Lived Assets", which establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets. This standard stipulates that an impairment loss should be recognized when the carrying value of a long-lived asset intended for use exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. The impairment loss is to be measured as the excess of the carrying value of the asset over its fair value. The Bank will adopt this standard effective November 1, 2003. This standard will have no impact on the consolidated financial statements at the date of adoption.

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2. RECENT STANDARDS PENDING ADOPTION (cont.)

Equity-linked deposit contracts
In 2003, the CICA issued Accounting Guideline No 17 "Equity-Linked Deposit Contracts" (AcG-17). Under this Guideline, starting November 1, 2003, the Bank may record at fair value certain deposit obligations for which the obligation varies according to the return on equities or an equity index and which entitle the investors, after a specified period of time, to receive the higher of a stated percentage of their principal investment or a variable amount calculated based on the return on equities or an equity index. Any subsequent changes in fair value will be recognized in the Consolidated Statement of Income as they arise. Under the transitional provisions of AcG-17, the Bank can charge to opening retained earnings the difference as at November 1, 2003 between the carrying value and fair value of obligations to make variable payments as well as the difference between the carrying value and fair value of any related derivative which has been the object of adjustments arising from the cessation of hedge accounting for such derivatives on initial application of Accounting Guideline No 13 "Hedging Relationships". The Bank intends to adopt the provisions of AcG-17 effective November 1, 2003. This Guideline will not have a material impact on the consolidated financial statements as at the date of adoption.

3. SECURITIZATION TRANSACTIONS

Guaranteed mortgage loans
During 2003, the Bank securitized $1,529 million of guaranteed mortgage loans (2002: $1,115 million) through the creation of mortgage-backed securities, and sold all of these securities in 2003 and substantially all in 2002 ($1,074 million). The mortgage-backed securities created and unsold are recorded in the Consolidated Balance Sheet under "Securities – Investment account". The Bank received net cash proceeds of $1,522 million (2002: $1,059 million) and retained the rights to the excess spread of $66 million (2002: $46 million) generated on the mortgage loans. The Bank also recorded a servicing liability of approximately $10 million (2002: $7 million). A pre-tax gain of approximately $50 million, $1 million of which was from mortgage-backed securities created and unsold before November 1, 2002 (2002: $26 million, $2 million of which was from mortgage-backed securities created and unsold before November 1, 2001), net of transaction fees, was recognized in the Consolidated Statement of Income under "Securitization revenues".

During 2003, the Bank made an upward revision to one of its assumptions, i.e., the prepayment rate, which is used to evaluate the fair value of retained rights to the excess spread on all mortgage-backed securities. As a result of this change in assumptions, the Bank recorded a permanent impairment charge for retained rights of approximately $3 million in the Consolidated Statement of Income under "Securitization revenues".

Credit card receivables
Under the terms of a 1998 agreement, the Bank sells credit card receivables on a revolving basis to a trust. During 2003, the Bank sold an additional $200 million (2002: $250 million) of its credit card receivables to this trust. The Bank received cash proceeds of $199 million (2002: $249 million), net of an initial reserve of $1 million (2002: $1 million) and transaction fees, and retained the rights to the excess spread of $6 million (2002: $7 million) generated on the receivables, net of any credit losses. The Bank also recorded a servicing liability of approximately $1 million (2002: $1 million) and recognized a pre-tax gain of approximately $5 million (2002: $6 million), net of transaction fees. In addition, following a net payment of $300 million in 2003, gross outstandings for securitized credit card receivables decreased to $1.1 billion.

Key assumptions
The key assumptions used to measure the fair value of retained interests as at the securitization date for transactions carried out during 2003 and 2002 were as follows:

	Guaranteed mortgage loans		Credit card receivables		Personal loans	
	2003	2002	**2003**	2002	**2003**	2002
Weighted average term (months)	**29.7**	31.8	**–**	–	**13.4**	14.6
Payment rate	**–**	–	**30.8%**	30.1%	**–**	–
Prepayment rate	**20.0%**	18.0%	**–**	–	**30.0%**	24.0%
Excess spread, net of credit losses	**1.7%**	1.5%	**11.3%**	11.6%	**3.8%**	3.6%
Expected credit losses	**–**	–	**3.3%**	3.3%	**1.2%**	1.2%
Discount rate	**4.1%**	4.9%	**21.0%**	21.0%	**21.0%**	21.0%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SECURITIZATION TRANSACTIONS (cont.)

The table below presents certain amounts recorded in the consolidated financial statements with respect to securitization operations:

	Securitization revenues				Investment account securities		Other liabilities	
	Gain on disposal of assets		Retained interests		Cash deposits at a trust		Servicing liability	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Mortgage loans								
– Guaranteed	**50**	26	**97**	71	**–**	–	**15**	11
– Other(1)	**–**	–	**–**	–	**23**	32	**–**	–
Credit card receivables	**33**	16	**17**	13	**6**	6	**3**	2
Consumer loans(2)	**–**	–	**1**	4	**19**	18	**–**	1
Personal loans(3)	**4**	4	**17**	18	**25**	24	**4**	5
Total	**87**	46	**132**	106	**73**	80	**22**	19

(1) During 2000, the Bank sold uninsured mortgage loans on properties with five or more units to a trust.
(2) During 2001, the Bank sold consumer loans to a trust.
(3) During 2002, the Bank sold a $515 million portfolio of fixed-rate personal loans to a trust, and the trust issued $515 million of bonds. On a revolving basis, the Bank sells most of its new fixed-rate loans to this trust each month.

The table below presents total securitized assets and certain credit data on the securitized assets:

	2003			2002		
	Securitized assets	**Impaired loans**	**Net credit losses**	Securitized assets	Impaired loans	Net credit losses
Mortgage loans						
– Guaranteed	**3,643(1)**	**–**	**–**	4,027 (1)	–	–
– Other	**443**	**–**	**–**	625	–	–
Credit card receivables	**1,100**	**8**	**31**	1,200	10	28
Consumer loans	**145**	**3**	**2**	348	5	6
Personal loans	**515**	**2**	**7**	515	1	1
Total	**5,846(2)**	**13**	**40**	6,715	16	35

(1) Includes $720 million of mortgage-backed securities created and unsold in 2003 (2002: $1,632 million). These securities are presented in the Consolidated Balance Sheet under "Securities – Investment account".
(2) Commitments under securitization programs, maturing or renewable in 2004, amount to $1.2 billion, including $200 million for credit card programs.

The table below summarizes certain cash flows received from securitization vehicles:

	Guaranteed mortgage loans		Credit card receivables		Consumer loans		Personal loans	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002
Proceeds from new securitizations	**1,529**	1,115	**200**	250	**–**	–	**–**	515
Proceeds collected and reinvested in revolving securitizations	**–**	–	**3,085**	3,109	**–**	–	**345**	136
Cash flows from retained interests in securitizations	**61**	60	**48**	14	**6**	12	**25**	7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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3. SECURITIZATION TRANSACTIONS (cont.)

As at October 31, the sensitivity of the current fair value of these retained interests to immediate 10% and 20% adverse changes in key assumptions was as follows:

Sensitivity of key assumptions to adverse changes

Assumptions	Guaranteed mortgage loans		Credit card receivables		Personal loans	
	2003	2002	**2003**	2002	**2003**	2002
Prepayment rate	**20.0%**	18.0%	**30.8%**	30.1%	**30.0%**	24.0%
Impact on fair value of 10% adverse change	**$ (3.0)**	$ (1.5)	**$ (1.2)**	$ (1.0)	**$ (0.3)**	$ (0.2)
Impact on fair value of 20% adverse change	**$ (5.8)**	$ (2.9)	**$ (2.3)**	$ (1.8)	**$ (0.6)**	$ (0.5)
Excess spread, net of credit losses	**1.6%**	1.5%	**11.3%**	11.6%	**3.8%**	3.6%
Impact on fair value of 10% adverse change	**$ (9.8)**	$ (6.1)	**$ (1.7)**	$ (1.4)	**$ (1.7)**	$ (1.8)
Impact on fair value of 20% adverse change	**$ (19.5)**	$ (12.1)	**$ (3.5)**	$ (2.8)	**$ (3.4)**	$ (3.6)
Discount rate	**4.7%**	5.4%	**21.0%**	21.0%	**21.0%**	21.0%
Impact on fair value of 10% adverse change	**$ (0.5)**	$ (0.3)	**$ (0.1)**	$ (0.1)	**$ (0.7)**	$ (0.8)
Impact on fair value of 20% adverse change	**$ (1.0)**	$ (0.7)	**$ (0.2)**	$ (0.1)	**$ (1.4)**	$ (1.6)
Servicing	**0.3%**	0.3%	**2.0%**	2.0%	**1.0%**	1.0%
Impact on fair value of 10% adverse change	**$ (1.5)**	$ (1.0)	**$ (0.3)**	$ (0.2)	**$ (0.4)**	$ (0.5)
Impact on fair value of 20% adverse change	**$ (3.0)**	$ (2.0)	**$ (0.6)**	$ (0.5)	**$ (0.9)**	$ (1.0)

These sensitivities are hypothetical and should be used with caution. Changes in fair value attributable to changes in assumptions generally cannot be extrapolated because the relationship between the change in the assumption and the change in fair value may not be linear. Changes affecting one factor may result in changes to another, which might magnify or counteract the sensitivities attributable to changes in assumptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SECURITIES

Securities held are as follows:

	Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	No specific maturity	**2003 Total**	2002 Total
Investment account							
Securities issued or guaranteed by							
Canada							
Unamortized cost	475	1,915	131	43	–	**2,564**	3,164
Fair value	479	1,956	136	44	–	**2,615**	3,250
Provinces							
Unamortized cost	49	73	469	26	–	**617**	639
Fair value	49	76	492	29	–	**646**	649
Municipalities or school boards							
Unamortized cost	–	–	9	–	–	**9**	2
Fair value	–	–	10	–	–	**10**	2
Debt securities							
Unamortized cost	462	715	765	148	206	**2,296**	1,545
Fair value	459	719	767	137	206	**2,288**	1,521
Equity securities							
Cost	–	–	–	–	1,512	**1,512**	1,513
Fair value	–	–	–	–	1,567	**1,567**	1,431
Total carrying value	986	2,703	1,374	217	1,718	**6,998**	6,863
Total fair value	987	2,751	1,405	210	1,773	**7,126**	6,853
Trading account							
Securities issued or guaranteed by							
Canada	6,848	2,103	518	141	–	**9,610**	6,819
Provinces	700	1,050	1,243	623	–	**3,616**	2,607
Municipalities or school boards	113	217	47	16	–	**393**	337
Debt securities	625	774	498	264	–	**2,161**	1,991
Equity securities	–	–	–	–	3,371	**3,371**	1,425
	8,286	4,144	2,306	1,044	3,371	**19,151**	13,179
Total carrying value of securities	9,272	6,847	3,680	1,261	5,089	**26,149**	20,042
Total fair value of securities	9,273	6,895	3,711	1,254	5,144	**26,277**	20,032

Where no organized market exists for which prices are available, the fair value is estimated using the market prices of similar securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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4. SECURITIES (cont.)

Unrealized gains and losses are as follows:

	2003				2002			
	Carrying value	Gross unrealized gains	Gross unrealized losses	**Fair value**	Carrying value	Gross unrealized gains	Gross unrealized losses	Fair value
Investment account								
Securities issued or guaranteed by								
Canada	2,564	51	–	**2,615**	3,164	87	(1)	3,250
Provinces	617	29	–	**646**	639	14	(4)	649
Municipalities or school boards	9	1	–	**10**	2	–	–	2
Debt securities	2,296	16	(24)	**2,288**	1,545	3	(27)	1,521
Equity securities	1,512	90	(35)	**1,567**	1,513	38	(120)	1,431
Total investment account	6,998	187	(59)	**7,126**	6,863	142	(152)	6,853

5. LOANS AND IMPAIRED LOANS

		Impaired loans			
	Gross amount	Gross	Specific allowances	Country risk allowance	Net balance
October 31, 2003					
Residential mortgage	**13,976**	**7**	**3**	**–**	**4**
Personal and credit card	**6,101**	**33**	**17**	**–**	**16**
Business and government	**18,934**	**436**	**186**	**19**	**231**
Securities purchased under reverse repurchase agreements	**3,955**	**–**	**–**	**–**	**–**
	42,966	**476**	**206**	**19**	**251**
General allowance [1]					**(405)**
Impaired loans, net of specific and general allowances					**(154)**
October 31, 2002 [2]					
Residential mortgage	12,867	23	3	–	20
Personal and credit card	5,561	33	12	–	21
Business and government	20,680	447	220	22	205
Securities purchased under reverse repurchase agreements	2,366	–	–	–	–
	41,474	503	235	22	246
General allowance [1]					(405)
Impaired loans, net of specific and general allowances					(159)

As at October 31, 2003, foreclosed assets held for sale amounted to $6 million net and foreclosed assets held for use, $4 million.

[1] *The general allowance for credit risk was created taking into account the Bank's credit risk in its entirety.*

[2] *As at October 31, 2002, foreclosed assets for settlement of impaired loans held for sale included in total impaired loans, net of the corresponding specific allowances amounted to $8 million.*

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6. ALLOWANCE FOR CREDIT LOSSES

The changes made to allowances during the year are as follows:

	Specific allowances	Allocated general allowance	Unallocated general allowance	Country risk allowance	**2003 Total**	2002 Total
Allowance at beginning	235	296	109	22	**662**	879
Transfer of allowance to assets held for disposal	–	–	–	–	**–**	(45)
Amounts related to discontinued operations	(1)	–	–	–	**(1)**	(51)
Provision for credit losses	177	4	(4)	–	**177**	490
Write-offs	(255)	–	–	(3)	**(258)**	(660)
Recoveries	50	–	–	–	**50**	49
Allowance at end	206	300	105	19	**630**	662

7. PREMISES AND EQUIPMENT

	Cost	Accumulated amortization	**2003 Net carrying value**	2002 Net carrying value
Land	10	–	**10**	10
Buildings	98	45	**53**	55
Equipment and furniture	476	374	**102**	89
	584	419	**165**	154
Leasehold improvements			**98**	101
	584	419	**263**	255
Amortization for the year recorded in the Consolidated Statement of Income			**49**	58

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8. GOODWILL AND INTANGIBLE ASSETS

The Bank applies an annual impairment test to goodwill and intangible assets with an indefinite life. No impairment loss was recorded in 2003 and 2002.

The change in the carrying value of goodwill is as follows:

	Personal and business	Wealth management	Financial markets	Total
Balance as at October 31, 2001	30	151	124	305
Acquisitions	53	257	68	378
Sale of asset-based lending operations in U.S.	(22)	–	–	(22)
Balance as at October 31, 2002	61	408	192	661
Other	–	(1)	–	(1)
Balance as at October 31, 2003	**61**	**407**	**192**	**660**

Intangible assets are as follows:

			2003	2002
	Cost	**Accumulated amorti-zation**	**Net carrying value**	Net carrying value
Trademarks [1]	**11**	**–**	**11**	11
Management contracts [1]	**160**	**–**	**160**	160
Other	**16**	**4**	**12**	13
Total	**187**	**4**	**183**	184

[1] Not subject to amortization

9. OTHER ASSETS

	2003	2002
Interest and dividends receivable	**475**	441
Prepaid expenses and other receivables	**353**	363
Future income tax assets (Note 16)	**334**	319
Brokers' client accounts	**135**	306
Investments in entities subject to significant influence	**174**	181
Accrued benefit assets (Note 13)	**347**	95
Other	**603**	693
	2,421	2,398

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10. DEPOSITS

	Payable on demand	Payable after notice	Payable on a fixed date	2003 Total	2002 Total
Personal	2,042	6,468	15,002	**23,512**	22,607
Business and government	6,840	6,682	9,178	**22,700**	22,582
Deposit-taking institutions	94	22	5,135	**5,251**	6,501
	8,976	13,172	29,315	**51,463**	51,690

11. OTHER LIABILITIES

	2003	2002
Interest and dividends payable	**523**	495
Income taxes payable	**289**	81
Future income tax liabilities (Note 16)	**215**	194
Accrued benefit liability (Note 13)	**91**	112
Trade and other payables	**1,843**	1,603
Brokers' client accounts	**132**	319
Commitments related to insurance operations	**99**	104
Subsidiaries' debts to third parties	**511**	360
Accounts payable and deferred income	**342**	228
Other	**439**	482
	4,484	3,978

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12. SUBORDINATED DEBENTURES

Debentures are subordinated in right of payment to the claims of depositors and certain other creditors.

Maturity date		Interest rate	Characteristics	Denominated in foreign currency	2003	2002
December	2003	7.50%	Not redeemable by the Bank prior to maturity		**45**	45
August	2004	8.13%	Not redeemable by the Bank prior to maturity unless the debentures become subject to foreign taxes	US 26	**34**	40
November	2009	7.75%	Not redeemable by the Bank prior to maturity unless the debentures become subject to foreign taxes	US 250	**330**	389
June	2010	6.90% (1)	Not redeemable prior to June 7, 2005		**350**	350
October	2011	7.50% (2)	Redeemable since October 17, 2001		**150**	150
October	2012	6.25% (3)	Not redeemable prior to October 31, 2007		**300**	300
April	2014	5.70% (4)	Not redeemable prior to April 16, 2004		**250**	250
February	2087	Floating (5)	Redeemable at the Bank's option since February 28, 1993	US 44	**57**	68
Total					**1,516**	1,592

(1) Bearing interest at a rate of 6.90% until June 7, 2005, and thereafter at an annual rate equal to the 90-day acceptance rate plus 1%.

(2) Bearing interest at a rate of 7.50% until October 17, 2006, and thereafter at an annual rate equal to the 90-day acceptance rate plus 1%.

(3) Bearing interest at a rate of 6.25% until October 31, 2007, and thereafter at an annual rate equal to the 90-day acceptance rate plus 1%.

(4) Bearing interest at a rate of 5.70% until April 16, 2009, and thereafter at an annual rate equal to the 90-day acceptance rate plus 1%.

(5) Bearing interest at an annual rate of 1/8% above LIBOR.

The debenture maturities are as follows:	
2004	79
2005	–
2006	–
2007	–
2008	–
2009 to 2013	1,130
2014 and thereafter	307

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13. EMPLOYEE FUTURE BENEFITS

The Bank's employee pension plans provide for the payment of benefits based on the length of service and final average earnings of the employees covered by the plans. The Bank also offers a variety of complementary insurance plans to eligible present and retired employees and their dependants.

As at October 31, the information related to all defined benefit plans is as follows:

	Pension benefit plans		Other benefit plans	
	2003	2002	**2003**	2002
Plan assets				
Fair value at beginning	**965**	1,021	**–**	–
Actual return on plan assets	**156**	(39)	**–**	–
Bank contributions	**284**	21	**–**	–
Employee contributions	**14**	13	**–**	–
Benefits paid	**(54)**	(51)	**–**	–
Fair value at end	**1,365**	965	**–**	–
Accrued benefit obligation				
Balance at beginning	**1,172**	1,118	**109**	107
Current service cost	**42**	40	**11**	6
Interest cost	**84**	78	**8**	7
Benefits paid	**(54)**	(51)	**(11)**	(8)
Plan amendments	**9**	10	**–**	–
Settlement of commitments under long-term disability benefit plan	**–**	–	**(27)**	–
Actuarial loss (gain)	**52**	(23)	**14**	(3)
Balance at end	**1,305**	1,172	**104**	109
Funded status – plan surplus (deficit)	**60**	(207)	**(104)**	(109)
Unamortized net actuarial loss (gain)	**287**	302	**13**	(3)
Accrued benefit asset (liability)	**347**	95	**(91)**	(112)

The above amounts, which relate to the accrued benefit obligation and the fair value of plan assets at year-end, include the following amounts which relate to plans that are not entirely funded:

	2003	2002
Fair value of plan assets	**35**	965
Accrued benefit obligations	**42**	1,172
Funded status – plan deficit	**(7)**	(207)

The significant actuarial assumptions adopted in measuring the Bank's accrued benefit obligations are as follows:

	Pension benefit plans		Other benefit plans	
	2003	2002	**2003**	2002
	%	%	%	%
Discount rate	**6.75**	7.00	**6.75**	7.00
Expected long-term rate of return on plan assets	**7.50**	7.75	**–**	–
Rate of compensation increase	**4.00**	4.25	**4.00**	3.25

For measurement purposes, an 8.3% annual rate of increase (2002: 7.7%) in the per capita cost of covered healthcare benefits was assumed for 2003. The rate was assumed to decrease gradually to 5.9% for 2008 and remain at that level thereafter.

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13. EMPLOYEE FUTURE BENEFITS (cont.)

A 0.25% decrease in the discount rate would have had the following impact on the pension expense for 2003 and the accrued benefit obligation as at October 31, 2003:

Impact of a 0.25% decrease in the discount rate	
Increase in pension expense for 2003	5
Increase in accrued benefit obligation as at October 31, 2003	44

A 0.25% decrease in the expected rate of return on pension plan assets would have increased pension expense for 2003 by $2.7 million.

For the years ended October 31, the Bank's net benefit plan expense was as follows:

	Pension benefit plans		Other benefit plans	
	2003	2002	**2003**	2002
Current service cost during the year, net of employee contributions	**28**	27	**11**	6
Interest cost	**84**	78	**8**	7
Additional cost related to settlement	**–**	–	**7**	–
Expected return on plan assets	**(84)**	(87)	**–**	–
Amortization of actuarial loss	**4**	–	**–**	–
	32	18	**26**	13

14. CAPITAL STOCK

Authorized
First preferred shares
An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $1 billion.

Second preferred shares
15 million shares, without par value, issuable for a maximum aggregate consideration of $300 million.

Common shares
An unlimited number of shares, without par value, issuable for a maximum aggregate consideration of $3 billion.

Outstanding shares and dividends declared				2003
	Shares		Dividends	
	No. of shares	$	$	Per share
First preferred shares				
Series 12	–	–	4	0.8125
Series 13	7,000,000	175	11	1.6000
Series 15	8,000,000	200	10	1.1480
Preferred shares and dividends	15,000,000	375	25	
Common shares at beginning	182,596,351	1,639		
Issued pursuant to the Dividend Reinvestment and Share Purchase Plan and the Stock Option Plan	1,123,552	26		
Repurchase of common shares	(9,100,000)	(82)		
Common shares at end and dividends	174,619,903	1,583	193	1.0800
Total dividends			218	

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14. CAPITAL STOCK (cont.)

Outstanding shares and dividends declared			2002	
	Shares		Dividends	
	No. of shares	$	$	Per share
First preferred shares				
Series 11	–	–	2	0.5000
Series 12	5,000,000	125	8	1.6250
Series 13	7,000,000	175	11	1.6000
Preferred shares and dividends	12,000,000	300	21	
Common shares at beginning	190,331,368	1,668		
Issued pursuant to the Dividend Reinvestment and Share Purchase Plan and the Stock Option Plan	495,420	12		
Issued as part of acquisitions	1,269,563	41		
Repurchase of common shares	(9,500,000)	(82)		
Common shares at end and dividends	182,596,351	1,639	174	0.9300
Total dividends			195	

Characteristics of first preferred shares (amounts in dollars)
Series 13
Redeemable in cash at the Bank's option, subject to the prior approval of the Superintendent and upon notice of not more than 60 and not less than 30 days, i) on August 15, 2005 and on the last day of each period of five years plus one day thereafter (conversion date), in whole at any time or in part from time to time, at a price equal to $25 per share plus all declared and unpaid dividends at the date fixed for redemption and, ii) after August 15, 2005, other than on a conversion date, in whole but not in part, at a price equal to $25.50 per share, plus all declared and unpaid dividends at the date fixed for redemption; non-cumulative preferential dividends, at a quarterly rate of $0.40 per share for the first five years and at a variable rate thereafter.

Convertible at the holder's option on August 15, 2005 or a subsequent conversion date, into fully paid preferred shares, Series 14.

Series 15
Redeemable in cash at the Bank's option, subject to the prior approval of the Superintendent, on or after May 15, 2008, in whole or in part, at a price equal to $26 per share if redeemed before May 15, 2009, at a price equal to $25.75 per share if redeemed during the 12-month period preceding May 15, 2010, at a price equal to $25.50 per share if redeemed during the 12-month period preceding May 15, 2011, at a price equal to $25.25 per share if redeemed during the 12-month period preceding May 15, 2012, and at a price equal to $25.00 per share if redeemed on or after May 15, 2012, plus all declared and unpaid dividends at the date fixed for redemption.

Issuance and redemption of preferred shares
On January 31, 2003, the Bank issued 8,000,000 first preferred shares with non-cumulative preferential dividends at a quarterly rate of $0.365625 per share, Series 15, for a consideration of $195 million, net of fees of $5 million.

On May 15, 2003, the Bank redeemed for cancellation all 5,000,000 first preferred shares with non-cumulative dividends, Series 12, at a price equal to $25 per share, plus all declared and unpaid dividends until the date of redemption.

On February 15, 2002, the Bank redeemed all 4,000,000 preferred shares, Series 11 outstanding at a price of $25 per share for an aggregate consideration of $100 million. On November 16, 2001, the Bank redeemed all 3,680,000 preferred shares, Series 10 outstanding at a price of $25 per share for an aggregate consideration of $92 million.

Repurchase of common shares
On January 20, 2003, the Bank commenced a normal course issuer bid for the repurchase of up to 9,100,000 common shares over a 12-month period ending no later than January 19, 2004. Purchases were made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average carrying value of common shares were charged to retained earnings. As at October 31, 2003, the Bank had completed the repurchase of 9,100,000 common shares at a cost of $298 million, which reduced common equity capital by $82 million and retained earnings by $216 million.

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14. CAPITAL STOCK (cont.)

In March 2002, the Bank commenced a normal course issuer bid for the repurchase of up to 9,500,000 common shares over a 12-month period ending no later than March 4, 2003. Purchases were made on the open market at market prices through the facilities of the Toronto Stock Exchange. Premiums paid above the average carrying value of common shares were charged to retained earnings. As at October 31, 2002, the Bank had completed the repurchase of 9,500,000 common shares at a cost of $306 million, which reduced common equity capital by $82 million and retained earnings by $224 million.

Reserved common shares
As at October 31, 2003, 4,251,099 common shares (2002: 4,512,919) were reserved under the Dividend Reinvestment and Share Purchase Plan and 17,392,723 common shares (2002: 18,930,437) were reserved under the Stock Option Plan.

In connection with the acquisition of Putnam Lovell Group Inc., 476,119 common shares were reserved, with issuance contingent upon certain profitability targets being met in 2004.

Restriction on the payment of dividends
Under the *Bank Act*, the Bank is prohibited from declaring dividends on its common or preferred shares if there are reasonable grounds for believing that the Bank would, by so doing, be in contravention of the regulations of the *Bank Act* or the guidelines of the Superintendent with respect to capital adequacy and liquidity. In addition, the ability to pay common share dividends is restricted by the terms of the outstanding preferred shares whereby the Bank may not pay dividends on its common shares without the approval of the holders of the outstanding preferred shares, unless all preferred share dividends have been declared and paid or set aside for payment.

Shareholder Rights Plan
In 2001, the Bank adopted a Shareholder Rights Plan (the "Rights Plan"). Under this plan, the Bank can issue subscription rights to all its shareholders should a takeover or share exchange bid be made for more than 20% of the outstanding common shares of the Bank except in the event of a permitted bid. Each right, with the exception of those held by the acquirer, would entitle its holder to purchase from the Bank one common share on the Toronto Stock Exchange (at 50% of the market price) on the stock acquisition date, subject to certain anti-dilution adjustments. The Rights Plan will remain in effect until March 7, 2004.

15. STOCK-BASED COMPENSATION

The Bank has four stock-based compensation plans:

Stock Appreciation Rights (SARs) Plan
The Bank offers a Stock Appreciation Rights Plan to senior management and other key employees of the Bank and its subsidiaries ("designated employees"). Under the SARs Plan, when designated employees exercise their SARs, they receive a cash amount equal to the difference between the market price of a common share on the exercise date of the SAR and the exercise price of the SAR. The exercise price of each SAR awarded is equal to the market price of the stock at closing on the day before the date of the award. The SARs vest evenly over a four-year period and expire 10 years from the award date or, in certain circumstances set out in the SARs Plan, expire within specified time limits. The expense recorded in respect of the SARs Plan was $6 million in 2003 and $4 million in 2002.

	2003		2002	
	Number of SARs	Weighted average exercise price	Number of SARs	Weighted average exercise price
SARs Plan				
Outstanding at beginning	**1,869,225**	**$ 17.42**	2,322,025	$ 17.22
Awarded	**24,500**	**$ 30.95**	26,500	$ 28.01
Exercised	**(600,285)**	**$ 17.31**	(413,900)	$ 16.79
Cancelled	**(23,800)**	**$ 19.01**	(65,400)	$ 18.36
Outstanding at end	**1,269,640**	**$ 17.71**	1,869,225	$ 17.42
Exercisable at end	**956,293**	**$ 17.20**	1,051,832	$ 16.87

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15. STOCK-BASED COMPENSATION (cont.)

Exercise price	SARs outstanding	Exercisable SARs	Expiry date
$13.50	131,900	131,900	December 2006
$24.50	10,600	10,600	December 2007
$25.00	15,625	15,625	December 2008
$17.35	1,037,215	777,911	December 2009
$24.90	29,725	14,863	December 2010
$28.01	21,575	5,394	December 2011
$30.95	23,000	–	December 2012
Total	1,269,640	956,293	

Stock Option Plan
The Bank offers a Stock Option Plan to senior management and other key employees of the Bank and its subsidiaries ("designated employees"). Under the Bank's Stock Option Plan, options are periodically awarded to designated employees. These options provide employees with the right to subscribe for common shares of the Bank at an exercise price equal to the market price of shares on the day before the date of the award. The options vest evenly over a period of four years and expire 10 years from the award date or, in certain circumstances set out in the Stock Option Plan, within specified time limits. The maximum number of common shares that may be issued under the Stock Option Plan is 17,392,723 as at October 31, 2003. The maximum number of common shares reserved for a participant may not exceed 5% of the total number of Bank shares issued and outstanding. Each participant in the SAR Plan who is a resident of Canada can exchange each SAR held for a stock option governed by the amended Stock Option Plan at an exercise price representing the market value of a common share at closing on the day before its exchange.

	2003		2002	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Stock Option Plan				
Outstanding at beginning	**5,692,822**	**$ 24.38**	4,517,975	$ 22.16
Awarded	**1,542,700**	**$ 30.95**	1,882,840	$ 28.01
Exercised	**(861,732)**	**$ 20.67**	(608,818)	$ 18.82
Cancelled	**(242,275)**	**$ 28.45**	(99,175)	$ 25.88
Outstanding at end	**6,131,515**	**$ 26.40**	5,692,822	$ 24.38
Exercisable at end	**2,784,767**	**$ 23.68**	2,466,587	$ 21.35

Exercise price	Options outstanding	Exercisable options	Expiry date
$11.00	185,175	185,175	December 2005
$13.50	218,600	218,600	December 2006
$25.20	616,750	616,750	December 2007
$25.20	684,400	684,400	December 2008
$24.90	1,332,575	666,288	December 2010
$28.01	1,654,215	413,554	December 2011
$30.95	1,439,800	–	December 2012
Total	6,131,515	2,784,767	

The fair value on the grant date of the options awarded in 2003 was estimated at $6.90 using the Black-Scholes model. The following assumptions were used: i) a risk-free interest rate of 4.54%, ii) an expected life of options of six years, iii) an expected volatility of 27% and iv) an expected dividend yield of 3.36%.

The impact of the adoption of the fair value-based method on the consolidated financial statements for the year ended October 31, 2003 was an increase of $2 million in compensation expense and in contributed surplus.

Deferred Stock Unit Plan for Executive Officers
The Deferred Stock Unit ("DSU") Plan for Executive Officers is for certain members of senior management and other key employees of the Bank and its subsidiaries ("executive officers"). Under the plan, a portion of the value of the executive officers' compensation is tied to the future value of the Bank's common shares as an incentive award. A DSU is a right whose value corresponds to the market value of a common share of the Bank at the time the DSUs are granted. DSUs vest according to specific criteria and on the dates established in the officers' grant letters. Additional DSUs are allocated to their accounts in proportion to dividends paid on common shares of the Bank. DSUs cannot be redeemed for cash until the officer retires or ceases to be a Bank employee. Compensation expense for this plan is recorded in the year the incentive award is earned by the Plan Executive Officers. Any change in the value of DSUs is recorded as a charge to the Consolidated Statement of Income. The expense for the plan amounted to $2 million in 2003.

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15. STOCK-BASED COMPENSATION (cont.)

Employee Share Ownership Plan
Under the Bank's Employee Share Ownership Plan, employees who meet the eligibility criteria can contribute up to 8% of their annual gross salary by way of payroll deductions. The Bank matches 25% of the employee contribution amount, to a maximum of $1,500 per annum. All Bank contributions vest after one year of continuous participation in the Plan, and all subsequent contributions vest immediately. The Bank's contribution, amounting to $4 million in 2003 ($3 million in 2002), was charged to "Operating expenses" when paid.

16. INCOME TAXES

The Bank's income taxes for the year ended October 31 in the consolidated financial statements are as follows:

	2003	2002
Consolidated Statement of Income		
Income taxes	277	150
Consolidated Statement of Retained Earnings		
Income taxes related to		
Share issuance expenses	(2)	–
Dividends on preferred shares, Series 10, 11, 12, 13 and 15	–	2
Foreign currency translation adjustment, net of income taxes	63	7
	61	9
	338	159
Income taxes were as follows:		
Current income taxes	333	179
Future income tax expense (benefit) relating to the inception and reversal of temporary differences	5	(20)
Income taxes	338	159

The temporary differences and carryforwards resulting in future income tax assets and liabilities are as follows:

	2003	2002
Future income tax assets		
Allowances for credit losses and other liabilities	307	284
Accrued benefit liabilities – Other benefit plans	27	35
	334	319
Future income tax liabilities		
Premises and equipment assets	19	14
Securitization	32	24
Accrued benefit assets – Pension benefit plans	103	26
Other	61	130
	215	194

Reconciliation of the Bank's income tax rate for the years ended October 31 is as follows:

	2003		2002	
	$	%	$	%
Income before income taxes, non-controlling interest and discontinued operations	926	100.0	498	100.0
Income taxes at Canadian statutory income tax rate	334	36.1	183	36.7
Reduction in income tax rate due to:				
Tax-exempt income from securities, mainly dividends from Canadian corporations	(35)	(3.8)	(17)	(3.4)
Capital gain	(6)	(0.7)	–	–
Rates applicable to subsidiaries abroad	(30)	(3.2)	(37)	(7.4)
Federal large corporations tax and surtax	7	0.8	7	1.4
Impairment charge on an investment	–	–	24	4.8
Other items	7	0.8	(10)	(2.0)
	(57)	(6.1)	(33)	(6.6)
Income taxes and effective income tax rate	277	30.0	150	30.1

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17. EARNINGS PER SHARE

Diluted net income per common share was calculated based on net income, less dividends on non-convertible preferred shares divided by the average number of common shares outstanding.

	2003	2002
Income before discontinued operations	**$622**	$318
Dividends on preferred shares	**(25)**	(21)
Income before discontinued operations available to common shareholders – basic and diluted	**597**	297
Average number of common shares outstanding (thousands)		
Average basic number of common shares outstanding	**177,751**	186,608
Adjustment to number of common shares		
Stock options	**1,484**	1,119
Average diluted number of common shares outstanding	**179,235**	187,727

18. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

On April 30, 2003, the Bank adopted the requirements of the CICA Accounting Guideline No 14 entitled "Disclosure of Guarantees" (AcG-14). This Guideline broadens the definition of guarantees and requires that the guarantor disclose significant information on the guarantees which it has provided.

AcG-14 defines a guarantee as a contract (including an indemnity) that contingently requires the guarantor to make payments (either in cash, financial instruments, other assets or shares of the entity, or provision of services) to the beneficiary due to (a) changes in interest rate, security or commodity price, foreign exchange rate, index or other variable, including the occurrence or non-occurrence of a specified event, that is related to an asset, a liability or an equity security of the beneficiary of the guarantee, (b) failure of a third party to perform under a contractual agreement or (c) failure of a third party to pay its indebtedness when due.

Significant guarantees issued by the Bank and in effect on October 31, 2003 are described below.

Letters of guarantee
In the normal course of business, the Bank issues letters of guarantee. These letters of guarantee represent irrevocable commitments that the Bank will make payments in the event that a client cannot meet his financial obligations to third parties. The Bank's policy for requiring collateral security with respect to letters of guarantee is similar to that for loans. Generally, the term of these letters of guarantee is less than two years. The maximum potential future payments for letters of guarantee totalled approximately $903 million as at October 31, 2003. The general allowance for credit losses covers all credit risks including those relating to letters of guarantee.

Liquidity facilities
The Bank provides backstop liquidity facilities under asset-backed commercial paper conduit programs administered by the Bank further to securitization operations. These backstop liquidity facilities may only be drawn upon if, after a market disruption, the programs were unable to access the commercial paper market. These guarantees have a duration of less than one year and are renewable periodically. None of the backstop liquidity facilities provided by the Bank have been drawn upon to date. As at October 31, 2003, the maximum potential future payments that the Bank may be required to make under these backstop liquidity facilities is $441 million. No amount has been accrued in the Consolidated Balance Sheet with respect to these liquidity facilities.

Derivatives
In the normal course of business, the Bank enters into written put options to meet the needs of its clients and for its own risk management and trading activities. Put options are contractual agreements by which the Bank grants the purchaser the right, but not the obligation, to sell to the Bank by or before a pre-determined date, a specific amount of currency, or a commodity or financial instrument, at a price agreed to when the option is contracted. Written put options that qualify as a guarantee under AcG-14 include primarily over-the-counter currency options with companies other than financial institutions and over-the-counter stock options when it is probable that the counterparty holds the underlying securities. The terms of these options vary based on the contracts but do not exceed two years. The maximum potential future payments with respect to these options sold totalled $1,022 million as at October 31, 2003. At that date, the Bank has recorded a liability of $5 million in the Consolidated Balance Sheet with respect to these written put options.

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18. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

Securities lending
In accordance with securities lending agreements the Bank has entered into with certain clients who have previously entrusted it with the safekeeping of their securities, the Bank, as an agent for these clients, lends their securities to third parties and indemnifies these clients in the event of loss. In order to protect itself against all potential losses, the Bank requires from the borrower as security a cash amount or highly-liquid marketable securities with a fair value greater than that of the securities loaned. The fair value of the securities loaned totalled $1.6 billion as at October 31, 2003. No amount has been accrued in the Consolidated Balance Sheet with respect to potential indemnities resulting from securities lending operations.

Sale of a business and operations
Under agreements with respect to the sale of a business and operations, the Bank agreed to indemnify the purchaser for losses incurred resulting from certain types of claims from the Bank's past conduct of the business or operations, as well as any representations and guarantees that may have been incorrect on the date they were made. Where the maximum potential future payments are limited by the agreements, the maximum amount for all such agreements totalled approximately $244 million as at October 31, 2003. One agreement does not limit the maximum potential future payments if the guarantee is enforced and the nature of these commitments prevents the Bank from estimating the maximum potential liability it may be required to pay. The applicable periods of the various indemnification clauses are described in the agreements and may vary. No amount has been accrued in the Consolidated Balance Sheet with respect to these indemnification agreements.

Other indemnification agreements
In the normal course of business, including securitization activities, the Bank enters into contractual agreements other than those described above. These agreements require that the Bank compensate the counterparties for costs incurred as a result of litigation, changes in laws and regulations (including tax legislation), claims with respect to past performance, incorrect representations or the non-performance of certain restrictive covenants. The nature of these commitments prevents the Bank from estimating the maximum potential liability it may be required to pay. The duration of these agreements is described in each contract. No amount has been accrued in the Consolidated Balance Sheet with respect to these agreements.

Other guarantee
In accordance with a mutual guarantee agreement required by a regulatory authority, a subsidiary of the Bank agreed to guarantee all commitments, debts and liabilities of a corporation subject to significant influence to the maximum of its regulatory capital, namely, $28 million as at October 31, 2003. This guarantee expires on the date the investment in the corporation subject to significant influence is sold, or sooner if deemed appropriate by the regulatory authority. To date, this guarantee remains undrawn and no amount has been accrued in the Consolidated Balance Sheet with respect to the agreement.

Commitments
As at October 31, 2003, minimum commitments under leases, contracts for outsourced information technology services, and other leasing agreements are as follows:

	Premises	Service contracts	Equipment and furniture	Total
2004	97	182	7	286
2005	90	174	4	268
2006	81	170	1	252
2007	73	165	–	238
2008	65	161	–	226
2009 and thereafter	430	511	–	941
	836	1,363	12	2,211

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18. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES (cont.)

Pledged assets
In the normal course of business, the Bank pledges securities and other assets as collateral for various liabilities it contracts. A breakdown of assets pledged as collateral is provided below.

As at October 31	**2003**	2002
Assets pledged to:		
– Bank of Canada	**25**	25
– Direct clearing organizations	**3,395**	3,652
Assets pledged in relation to:		
– Derivative transactions	**202**	116
– Borrowing, securities lending and securities sold under repurchase agreements	**9,304**	6,538
– Other	**225**	262
Total	**13,151**	10,593

Credit instruments
In the normal course of business, the Bank enters into various off-balance sheet commitments. The credit instruments used to meet the financing needs of its clients represent the maximum amount of additional credit that the Bank could be obligated to extend if the commitments were fully drawn.

As at October 31	**2003**	2002
Letters of guarantee (1)	**903**	947
Documentary letters of credit (2)	**93**	183
Credit card loans (3)	**4,838**	4,442
Commitments to extend credit (3)		
Original term of one year or less	**11,253**	2,787
Original term of more than one year	**9,689**	9,504

(1) *See "Letters of guarantee" paragraph on page 107.*
(2) *Documentary letters of credit are documents issued by the Bank which are used in international trade to enable a third party to draw drafts on the Bank up to an amount established under specific terms and conditions, and are collateralized by the delivery of the goods they represent.*
(3) *Credit card loans and commitments to extend credit represent the undrawn portions of credit authorizations granted in the form of loans, acceptances, letters of guarantee and documentary letters of credit. The Bank is required at all times to make the undrawn portion of the authorization available, subject to certain conditions.*

Litigation
The Bank and its subsidiaries are engaged in various legal proceedings arising in the normal course of business. Most of these proceedings are related to lending activities, which are in reaction to measures taken by the Bank to collect delinquent loans and to brokerage activities. In management's opinion, and based on past experience, the aggregate amount of potential liability related thereto will not have a material impact on the Bank's financial position.

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19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, exchange rate, or equity, commodity or credit instrument or index. The Bank uses derivatives to accommodate the needs of its clients as well as for its own risk management and trading activities.

The main derivative financial instruments used are defined as follows:

Foreign exchange forward contracts are tailor-made agreements transacted between counterparties in the over-the-counter ("OTC") market to buy or sell foreign currencies for delivery on a future date at a specified rate.

Futures are contractual obligations to buy or deliver a specific amount of currency, commodities or financial instruments on a future date at a specified price. Futures are standardized contracts traded on organized exchanges and are subject to daily cash margining.

Forward rate agreements are contracts fixing an interest rate to be paid or received, calculated on a notional amount, with a specified maturity commencing at a specified future date.

Swaps are transactions in which two parties agree to exchange cash flows having specific characteristics (in terms of fixed or floating rates, currency, commodity price, index, etc.) based on a reference notional amount for a specified period of time.

Options are agreements between two parties in which the writer of the option grants the buyer the right, but not the obligation, to buy or to sell, at or by a predetermined date, a specific amount of currency, commodities or financial instruments at a price agreed to when the option is arranged. The writer receives a premium for selling this instrument.

Notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative financial instruments.

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19. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

		Remaining term to maturity				2003		2002
As at October 31	Contracts held for trading purposes	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	**Total contracts**	Contracts held for trading purposes	Total contracts
Foreign exchange contracts								
OTC contracts								
Forwards	6,652	3,617	2,091	1,040	–	**6,748**	7,340	7,340
Swaps	36,874	25,429	13,978	2,939	543	**42,889**	37,370	41,173
Options purchased	9,459	6,472	2,712	275	–	**9,459**	7,470	7,470
Options written	9,676	5,824	3,478	374	–	**9,676**	6,798	6,798
Total	62,661	41,342	22,259	4,628	543	**68,772**	58,978	62,781
Exchange-traded contracts								
Futures								
Long positions	9	9	–	–	–	**9**	28	28
Short positions	306	273	33	–	–	**306**	110	110
Options purchased	160	110	50	–	–	**160**	137	137
Options written	11	11	–	–	–	**11**	298	298
Total	486	403	83	–	–	**486**	573	573
Interest rate contracts								
OTC contracts								
Forward rate agreements	7,487	5,883	1,604	–	–	**7,487**	8,561	8,561
Swaps	66,528	31,692	22,791	27,080	6,914	**88,477**	41,121	67,819
Options purchased	7,275	879	4,230	1,509	972	**7,590**	11,514	11,522
Options written	13,455	1,134	9,152	1,799	1,370	**13,455**	16,135	16,135
Total	94,745	39,588	37,777	30,388	9,256	**117,009**	77,331	104,037
Exchange-traded contracts								
Futures								
Long positions	6,804	1,417	941	4,446	–	**6,804**	4,332	5,961
Short positions	15,584	4,351	10,330	2,181	–	**16,862**	7,607	8,174
Options purchased	31,115	11,998	16,840	2,277	–	**31,115**	11,220	22,395
Options written	28,761	15,010	16,586	2,110	–	**33,706**	21,283	43,565
Total	82,264	32,776	44,697	11,014	–	**88,487**	44,442	80,095
Equity, commodity and credit derivative contracts								
OTC contracts								
Futures	164	8	–	48	108	**164**	185	185
Swaps	7,993	5,345	1,433	1,211	29	**8,018**	2,145	2,209
Options purchased	640	12	216	419	1	**648**	576	586
Options written	342	–	147	183	12	**342**	391	391
Total	9,139	5,365	1,796	1,861	150	**9,172**	3,297	3,371
Exchange-traded contracts								
Futures								
Long positions	86	97	5	–	–	**102**	101	101
Short positions	1,012	973	1	38	–	**1,012**	872	872
Options purchased	219	132	30	57	–	**219**	406	406
Options written	24	17	7	–	–	**24**	296	296
Total	1,341	1,219	43	95	–	**1,357**	1,675	1,675
Total 2003	250,636	120,693	106,655	47,986	9,949	**285,283**	–	–
Total 2002	186,296	122,732	87,760	36,974	5,066	**252,532**	186,296	252,532

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19. DERIVATIVE FINANCIAL INSTRUMENTS (cont.)

Credit risk on derivative financial instruments is the risk of a financial loss occurring as a result of a counterparty failing to honour its obligations to the Bank. The current replacement cost, which is the positive fair value of all outstanding derivative financial instruments, represents the Bank's maximum derivative credit exposure. The credit equivalent amount is calculated by taking into account the current replacement cost of all outstanding contracts in a gain position, potential future exposure and the impact of master netting agreements. The risk-weighted amount is the credit equivalent amount multiplied by the counterparty risk factors prescribed by the Superintendent. The Bank negotiates master netting agreements with counterparties with which it has significant credit risk exposure resulting from derivative transactions. Such agreements provide for the simultaneous close-out and settling of all transactions with a counterparty in the event of default. Some of these agreements also provide for the exchange of collateral between parties where the fair value of outstanding transactions between the parties exceeds an agreed threshold.

As at October 31, credit risk exposure on the derivatives portfolio is as follows:

	2003				2002			
	Notional amount	Replacement cost	Credit equivalent amount	Risk-weighted amount	Notional amount	Replacement cost	Credit equivalent amount	Risk-weighted amount
Foreign exchange contracts	69,258	550	1,005	230	63,354	314	815	221
Interest rate contracts	205,496	392	576	100	184,132	579	720	161
Equity, commodity and credit derivative contracts	10,529	431	898	256	5,046	345	602	161
Total	285,283	1,373	2,479	586	252,532	1,238	2,137	543

The fair value of derivatives is determined before the impact of master netting agreements. When available, market prices are used to determine the fair value of derivatives. Otherwise, fair value is determined using pricing models that incorporate current market prices and the contractual prices of the underlying instruments, the time value of money, yield curves and volatility factors. If necessary, fair value is adjusted to take market, model and credit risks into account, as well as the related costs.

As at October 31, the fair value of derivative financial instruments is as follows:

	2003				2002			
	Contracts held for trading purposes		Contracts held for non-trading purposes		Contracts held for trading purposes		Contracts held for non-trading purposes	
	Gross assets	Gross liabilities	Gross assets	Gross liabilities	Gross assets	Gross liabilities	Gross assets	Gross liabilities
Foreign exchange contracts	1,434	1,120	76	227	649	746	89	15
Interest rate contracts	518	661	512	145	433	408	729	192
Equity, commodity and credit derivative contracts	608	546	4	–	434	397	3	–
Total	2,560	2,327	592	372	1,516	1,551	821	207

As at October 31, the distribution of risk exposure by counterparty is as follows:

	2003		2002	
	Replacement cost	Credit equivalent amount	Replacement cost	Credit equivalent amount
OECD governments	31	407	6	232
OECD banks	2,432	1,501	1,947	1,369
Other	496	571	339	536
Total	2,959	2,479	2,292	2,137

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20. GEOGRAPHIC DISTRIBUTION OF EARNING ASSETS BY ULTIMATE RISK

	2003		2002	
	$	%	$	%
North America				
Canada	**62,698**	**84.3**	57,171	86.5
United States	**4,717**	**6.3**	3,746	5.7
	67,415	**90.6**	60,917	92.2
Europe				
United Kingdom	**2,283**	**3.1**	1,228	1.9
Germany	**648**	**0.9**	1,024	1.5
France	**385**	**0.5**	352	0.5
Other	**2,266**	**3.0**	1,705	2.5
	5,582	**7.5**	4,309	6.4
Asia and Pacific	**1,091**	**1.5**	436	0.7
Latin America and Caribbean	**315**	**0.4**	390	0.6
Middle East and Africa	**18**	**–**	24	0.1
Earning assets as at September 30	**74,421**	**100.0**	66,076	100.0
Other assets as at September 30	**6,948**		6,777	
Net change in assets in October	**1,054**		1,740	
Total assets as at October 31	**82,423**		74,593	

Earning assets are those which bear interest. Consequently, they do not include cash, deposits with the Bank of Canada, cheques and other items in transit (net value), customers' liability under acceptances, premises and equipment, and other assets. The Bank's earning assets as at September 30 were distributed according to the location of ultimate risk, i.e., the geographic location of the borrower or, if applicable, the guarantor. Earning assets are calculated net of any allowance for credit losses, and are presented separately for each country where the Bank's exposure exceeds an amount equal to 0.75% of total earning assets.

There is no material concentration of credit risk in any given operating segment.

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21. INTEREST RATE SENSITIVITY POSITION

Analyzing interest rate sensitivity gaps is one of the methods used by the Bank to manage interest rate risk.

The following breakdown of assets and liabilities by maturity illustrates the sensitivity of the Bank's balance sheet to interest rate fluctuations as at October 31, 2003.

	Floating rate	Within 3 months	3 to 12 months	1 to 5 years	Over 5 years	Non-interest sensitive	Total
Assets							
Cash resources	1,741	3,753	1,331	–	–	222	7,047
Effective yield		2.0%	1.65%	–%	–%		
Securities	58	2,099	7,115	6,847	4,971	5,089	26,179
Effective yield		2.95%	3.15%	3.32%	5.43%		
Loans	948	24,915	5,340	8,860	452	1,821	42,336
Effective yield		3.73%	5.49%	5.98%	6.39%		
Other assets	3	–	–	–	–	6,858	6,861
	2,750	30,767	13,786	15,707	5,423	13,990	82,423
Liabilities and shareholders' equity							
Deposits	2,681	25,705	8,527	13,480	267	803	51,463
Effective yield		2.32%	3.38%	3.88%	2.20%		
Other debt[1]	2	9,196	310	1,968	2,617	3,038	17,131
Effective yield		2.64%	3.17%	3.50%	4.94%		
Subordinated debentures	–	45	91	800	580	–	1,516
Effective yield		7.50%	3.88%	6.77%	6.87%		
Acceptances and other liabilities	–	–	–	–	–	8,216	8,216
Shareholders' equity	–	–	–	375	–	3,722	4,097
	2,683	34,946	8,928	16,623	3,464	15,779	82,423
On-balance sheet gap	67	(4,179)	4,858	(916)	1,959	(1,789)	–
Derivative financial instruments	–	(14,741)	6,716	7,214	880	(69)	–
Total	67	(18,920)	11,574	6,298	2,839	(1,858)	–
Position in Canadian dollars							
On-balance sheet total	(814)	1,733	3,925	(1,902)	755	(3,620)	77
Derivative financial instruments	–	(14,330)	5,637	7,006	936	–	(751)
Total	(814)	(12,597)	9,562	5,104	1,691	(3,620)	(674)
Position in foreign currency							
On-balance sheet total	881	(5,911)	932	985	1,205	1,831	(77)
Derivative financial instruments	–	(412)	1,080	209	(57)	(69)	751
Total	881	(6,323)	2,012	1,194	1,148	1,762	674
Total 2003	**67**	**(18,920)**	**11,574**	**6,298**	**2,839**	**(1,858)**	**–**
Total 2002	6,541	(16,734)	4,273	7,517	1,183	(2,780)	–

[1] Represents obligations related to securities sold short and securities sold under repurchase agreements.

Effective yield represents the weighted average effective yield based on the earlier of contractual repricing or the maturity date.

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22. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the fair value of balance sheet financial instruments, except for instruments whose fair value is estimated to be equal to their carrying value. This fair value is determined using the valuation methods and assumptions described below. The fair values of derivative financial instruments are not included in the table and are presented separately in Note 19.

Fair value represents the amount at which a financial instrument could be exchanged in an arm's length transaction between willing parties under no compulsion to act and is best evidenced by a quoted market price. If no quoted market prices are available, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of the net realizable value.

The fair values disclosed exclude the values of assets and liabilities that are not considered financial instruments such as land, buildings, equipment and furniture and other. Due to the judgment used in applying a wide range of acceptable valuation techniques and estimations in calculating fair value amounts, fair values are not necessarily comparable among financial institutions. The calculation of estimated fair values is based on market conditions at a specific point in time and may not be reflective of future fair values.

		2003		2002
	Carrying value	**Fair value**	Carrying value	Fair value
Assets				
Securities	**26,179**	**26,307**	20,118	20,108
Loans	**42,336**	**42,622**	40,812	41,166
Liabilities				
Deposits	**51,463**	**51,831**	51,690	52,175
Subordinated debentures	**1,516**	**1,627**	1,592	1,697

Valuation methods and assumptions

Securities

The fair value of securities is presented in Note 4 to the consolidated financial statements. It is based on quoted market prices. If quoted market prices are not available, fair value is estimated using the quoted market prices of similar securities.

Loans

The fair value of floating-rate loans is assumed to be equal to their carrying value. The fair value of other loans is estimated using a discounted cash flow calculation that uses market interest rates currently charged for similar new loans as at the balance sheet date applied to expected maturity amounts (adjusted for any prepayments).

Deposits

The fair value of fixed-rate deposits is determined by discounting the contractual cash flows, using market interest rates currently offered for deposits with the same remaining terms to maturity. The fair value of deposits with no stated maturity is assumed to approximate their carrying value.

Subordinated debentures

The fair value of subordinated debentures is determined by discounting the contractual cash flows, using market interest rates currently offered for similar financial instruments with the same remaining terms to maturity.

23. IMPAIRMENT CHARGE

In 2002, the Bank carried out a valuation of the carrying value of its investment in COGNICASE INC., and an impairment charge of $137 million was recorded during 2002 in the Consolidated Statement of Income under "Other income". In the first quarter of 2003, CGI Group Inc. purchased all the shares of COGNICASE INC. and the Bank recorded a $4 million loss in the Consolidated Statement of Income under "Other Income".

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24. RELATED PARTY TRANSACTIONS

The Bank grants loans to its directors and officers under various conditions. The balance of loans granted amounted to:

	2003	2002
Mortgage loans	**2**	6
Other loans	**83**	144

Loans to eligible officers have been granted, since January 1, 2003, under the same conditions as applicable to any other employee of the Bank. The principal conditions are as follows:

- The employee must meet the same credit requirements as a customer
- Mortgage loans: market rate less 2%
- Personal loans and credit cards: customer's rate divided by 2
- Personal line of credit: Canadian prime rate less 3% (never lower than Canadian prime divided by 2).

For personal loans, credit cards and personal lines of credit, employees may not borrow more than 50% of their annual salary at the rate specified. The Canadian prime rate is applied to the remainder.

Loans granted to officers before January 1, 2003 are administered according to the conditions previously in effect, for a transitional period ending December 31, 2005. These conditions are as follows:

- Loans to directors are granted under market conditions for similar risks
- Residential mortgage loans to officers are granted at the market rate divided by 3 for the first $50,000 and the lesser of the market rate divided by 3 or the market rate less 5% for the remainder
- Other loans granted to officers are chiefly personal lines of credit bearing interest at the Bank's prime rate divided by 2 for the first $10,000 to $20,000, and the lesser of prime minus 3% or prime divided by 2 for the remainder, up to an aggregate maximum of 50% of the officer's annual salary.

25. SEGMENT DISCLOSURES

The Bank carries out its activities in three reportable segments described below. The other operating segments are grouped together for presentation purposes. Each reportable segment is distinguished by the services offered, the type of client and the marketing strategy. The following summary briefly describes the operations included in each of the Bank's reportable segments.

Personal and commercial
This segment comprises the branch network, intermediary services, credit cards, insurance, commercial banking services and real estate.

Wealth management
This segment comprises full-service retail brokerage, discount brokerage, mutual funds, trust services and portfolio management.

Financial markets
This segment consists of corporate financing and lending, treasury operations, which include asset and liability management, and corporate brokerage.

Other
This heading comprises securitization transactions, gains on the sale of operations, the impairment charge on an investment, certain non-recurring items, discontinued operations and the unallocated portion of centralized service units.

The accounting policies of the reportable segments are the same as those described in the note on accounting policies, with the exception of net interest income, other income and income taxes, which are presented on a taxable equivalent basis. Taxable equivalent basis is a calculation method that consists in grossing up the tax-exempt income earned on certain securities by the amount of income tax that otherwise would have been payable. Head office expenses are allocated between the various segments. The provision for credit losses for the segments is determined based on expected losses, which are established through statistical analysis. The difference between actual losses and expected losses is recorded under the heading "Other". The Bank assesses performance based on net income. Intersegment revenues are recorded at the exchange amount. Segment assets are average assets directly used in segment operations.

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25. SEGMENT DISCLOSURES (cont.)

Results by business segment [1]

	Personal and Commercial		Wealth Management		Financial Markets		Other		Total	
	2003	2002	**2003**	2002	**2003**	2002	**2003**	2002	**2003**	2002
Net interest income [2]	**1,248**	1,190	**91**	89	**186**	321	**(159)**	(127)	**1,366**	1,473
Other income [2]	**629**	592	**567**	522	**745**	508	**152**	19	**2,093**	1,641
Total revenues	**1,877**	1,782	**658**	611	**931**	829	**(7)**	(108)	**3,459**	3,114
Operating expenses	**1,157**	1,113	**526**	506	**527**	416	**49**	5	**2,259**	2,040
Contribution	**720**	669	**132**	105	**404**	413	**(56)**	(113)	**1,200**	1,074
Provision for credit losses	**207**	219	**–**	1	**39**	39	**(69)**	231	**177**	490
Income before income taxes, non-controlling interest and discontinued operations	**513**	450	**132**	104	**365**	374	**13**	(344)	**1,023**	584
Income taxes [2]	**185**	167	**47**	35	**130**	133	**12**	(99)	**374**	236
Non-controlling interest	**–**	–	**4**	3	**–**	–	**23**	27	**27**	30
Income before discontinued operations	**328**	283	**81**	66	**235**	241	**(22)**	(272)	**622**	318
Discontinued operations	**–**	–	**–**	–	**–**	–	**2**	111	**2**	111
Net income	**328**	283	**81**	66	**235**	241	**(20)**	(161)	**624**	429
Average assets	**38,679**	38,337	**665**	769	**37,819**	37,067	**(5,492)**	(6,881)	**71,671**	69,292

(1) *Since November 1, 2002, the Bank has modified the composition of its reportable segments in order to reflect changes to its organizational structure. The comparative figures have been restated to take these changes into account.*
(2) *Net interest income was grossed up by $42 million (2002: $29 million) and other income by $55 million (2002: $57 million) to bring the tax-exempt income earned on certain securities in line with the income earned on other financial instruments. An equal amount was added to income taxes.*

Results by geographic segment
Total revenues are attributed to countries where the client conducts business. More than 92.5% of revenues are concentrated in Canada.

26. DISCONTINUED OPERATIONS

Lending operations in the United States
On January 15, 2002, the Bank finalized the sale of its asset-based lending operations in the United States to PNC Financial Services Group. This transaction generated a gain, net of restructuring costs, of $79 million net of income taxes of $62 million. Moreover, $41 million of the general allowance for credit risk, net of income taxes of $24 million, was reversed under "Discontinued operations". Taking into account the results of these operations, the total contribution from discontinued operations was $111 million, net of income taxes of $82 million for 2002.

For the year ended October 31, 2003, the total contribution from discontinued operations was $2 million, net of income taxes of $1 million.

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26. DISCONTINUED OPERATIONS (cont.)

The results for discontinued operations were as follows:

	2003	2002
Interest income	7	52
Interest expense	2	24
Net interest income	5	28
Other income	1	167
Total revenues	6	195
Operating expenses	4	53
Contribution	2	142
Provision for credit losses	(1)	(51)
Income before income taxes	3	193
Income taxes	1	82
Net income	2	111

A total of $2.5 billion of loans were sold on January 15, 2002. The balance of the loans included in the agreement, representing $313 million as at October 31, 2002, is shown on the Consolidated Balance Sheet under "Assets held for disposal". They constitute the asset-based loans covered by an 18-month servicing agreement with PNC Financial Services Group which ended July 15, 2003. The sale was completed and all the parties had fulfilled their respective obligations as at October 31, 2003.

27. ACQUISITIONS

A) Putnam Lovell Group Inc.

On June 19, 2002, the Bank finalized its acquisition of U.S.-based investment bank Putnam Lovell Group Inc. (Putnam Lovell), which has been operating since that date under the name Putnam Lovell NBF.

The aggregate consideration paid at closing amounted to $27 million and consisted of 807,294 common shares of the Bank valued at $26 million plus a cash payment of $1 million. The value of the common shares issued was established on the basis of the average closing price of Bank shares in the days preceding June 18, 2002, the date on which the number of shares was determined. Furthermore, as part of the acquisition, the Bank issued 191,598 common shares valued at $6 million as compensation to a third party. The $68 million excess of the purchase price over the fair value of the net liabilities assumed was allocated entirely to goodwill.

An additional amount in the form of 476,119 common shares of the Bank valued at $15 million will be paid in 2004, contingent upon certain profitability targets being met and if applicable, will be added to goodwill.

The results of Putnam Lovell have been recorded in the Consolidated Statement of Income as of its acquisition date, June 19, 2002.

B) Altamira Investment Services Inc.

On August 12, 2002, the Bank concluded the acquisition of Altamira Investment Services Inc. (Altamira), a mutual funds manager and distributor.

The purchase price of $263 million consisted of $254 million in cash and 270,671 common shares of the Bank valued at $9 million.

The tangible assets acquired amounted to $48 million while the liabilities assumed amounted to $264 million and consisted primarily of Altamira debt. The excess of the purchase price over the fair value of the net liabilities assumed was $479 million. Of this amount, $171 million was allocated to Altamira management contracts and the Altamira trademark as intangible assets, and the remaining $308 million was allocated to goodwill. The intangible assets acquired have an indefinite useful life and will not be amortized. The results of Altamira have been recorded in the Consolidated Statement of Income as of its acquisition date, August 12, 2002.

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28. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN CANADA

General allowance for credit risk

In 1998, in accordance with the guidance prescribed by the Superintendent, the Bank increased its general allowance for credit risk by $300 million and applied this one-time adjustment to retained earnings. This adjustment was not in compliance with Canadian GAAP. In 2001, after evaluating the adequacy of the general allowance for credit risk in accordance with Canadian GAAP, the general allowance for credit risk was raised to $403 million. During 2002, following the sale of its asset-based lending operations in the United States, the Bank reversed an amount of $65 million under "Discontinued operations" ($41 million net of income taxes), representing the portion of the general allowance related to its asset-based lending portfolio in the United States. In addition, following an evaluation of the adequacy of the general allowance for credit risk as at January 31, 2002, the allowance was established at $435 million. Since February 1, 2002, the general allowance for credit risk has been in accordance with Canadian GAAP and the accounting treatment prescribed by the Superintendent.

Had the Bank followed Canadian GAAP during 2002, net income would have decreased by $57 million, the provision for credit losses would have increased by $97 million, income taxes would have decreased by $40 million, and basic and diluted net income per common share would have decreased by $0.31 and $0.30, respectively.

There was no impact as at October 31, 2003 and 2002 on the Consolidated Balance Sheet or the book value of common shares.

Furthermore, had the Bank followed Canadian GAAP during 2002, return on common shareholders' equity would have decreased by 1.61%.

29. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES

The consolidated financial statements of the Bank are prepared in accordance with Canadian GAAP, other than the accounting for the general allowance for credit risk, which is in accordance with the accounting treatment prescribed by the Superintendent and described in Note 28, which until January 31, 2002, was not in accordance with Canadian GAAP. Since February 1, 2002, the general allowance for credit risk has been in accordance with Canadian GAAP and the accounting treatment prescribed by the Superintendent. The principal differences resulting from the application of U.S. GAAP on net income and on the Consolidated Balance Sheet are presented below. In addition, a Consolidated Statement of Comprehensive Income is presented in conformity with U.S. GAAP.

	2003	2002
Reported net income	624	429
Charge for other-than-temporary impairment	(20)	134
Investment account securities	(2)	–
General allowance for credit risk	–	(97)
Sale of premises	(2)	(2)
Loan securitization	4	(7)
Derivatives and hedging activities	(11)	38
Income tax effect on above items	11	5
Net income per U.S. GAAP	604	500
Net income per common share, basic – U.S. GAAP	$3.26	$2.57
Net income per common share, diluted – U.S. GAAP	$3.23	$2.55

Consolidated Statement of Comprehensive Income	2003	2002
Net income per U.S. GAAP	604	500
Other comprehensive income		
Change in unrealized gains and losses on securities available for sale, net of income taxes of $59 (2002: $(44))	104	(69)
Change in gains and losses on derivatives designated as cash flow hedges, net of income taxes of $(35) (2002: $(2))	(64)	31
Minimum pension liability adjustment, net of income taxes of $1 (2002: $(3))	1	(5)
Foreign currency translation adjustment, net of income taxes of $63 (2002: $7)	(11)	(2)
Comprehensive income	634	455

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29. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES (cont.)

Consolidated Condensed Balance Sheet

			2003			2002
	Canadian GAAP	Increase	U.S. GAAP	Canadian GAAP	Increase (decrease)	U.S. GAAP
Assets						
Cash resources	**7,047**	**–**	**7,047**	6,864	–	6,864
Investment account securities	**6,998**	**121**	**7,119**	6,863	(29)	6,834
Trading account securities	**19,151**	**–**	**19,151**	13,179	–	13,179
Loan substitutes	**30**	**–**	**30**	76	–	76
Loans	**42,336**	**588**	**42,924**	40,812	2,173	42,985
Premises and equipment	**263**	**81**	**344**	255	84	339
Goodwill	**660**	**22**	**682**	661	22	683
Other assets	**5,938**	**599**	**6,537**	5,883	741	6,624
Total assets	**82,423**	**1,411**	**83,834**	74,593	2,991	77,584
Liabilities						
Deposits	**51,463**	**514**	**51,977**	51,690	2,079	53,769
Other liabilities	**24,949**	**533**	**25,482**	16,924	520	17,444
Subordinated debentures	**1,516**	**114**	**1,630**	1,592	163	1,755
Non-controlling interest	**398**	**–**	**398**	486	–	486
Total liabilities	**78,326**	**1,161**	**79,487**	70,692	2,762	73,454
Shareholders' equity						
Preferred shares	**375**	**–**	**375**	300	–	300
Common shares	**1,583**	**24**	**1,607**	1,639	24	1,663
Contributed surplus	**2**	**–**	**2**	–	–	–
Retained earnings	**2,137**	**25**	**2,162**	1,962	34	1,996
Accumulated other comprehensive income	**–**	**201**	**201**	–	171	171
Total shareholders' equity	**4,097**	**250**	**4,347**	3,901	229	4,130
Total liabilities and shareholders' equity	**82,423**	**1,411**	**83,834**	74,593	2,991	77,584

Impairment charge
Under Canadian GAAP, unless compelling evidence is provided to indicate otherwise, a decrease in the value of an investment is considered an other-than-temporary impairment when the carrying value exceeds the market value for a prolonged period. The factors indicative of an impairment that is other than temporary under Canadian GAAP differ from those in the United States insofar as the period during which the carrying value may exceed the market value before it must be concluded that the decrease in value is an other-than-temporary impairment. In comparison to Canadian GAAP, the period under U.S. GAAP is significantly shorter. Lastly, under U.S. GAAP, when there has been a loss in value of an investment that is other than a temporary decline, the investment should be written down to fair value, based on market prices.

Investment account securities
Under U.S. GAAP, investment account securities are separated into two categories: securities available for sale (reported in the balance sheet at fair value) and securities held to maturity (reported in the Consolidated Balance Sheet at unamortized cost). Unrealized gains and losses on securities available for sale, net of income taxes, are presented separately in "Accumulated other comprehensive income" under Shareholders' equity, while the change in unrealized gains and losses, net of income taxes, is recorded in the Consolidated Statement of Comprehensive Income. Under U.S. GAAP, the Bank records virtually all investment account securities in the available for sale category. Furthermore, under U.S. GAAP, all commitments related to securities sold short must be recorded at their fair value as liabilities, and any changes in fair value are to be reported in the Consolidated Statement of Income. Under Canadian GAAP, securities sold short that are used in hedging relationships are reported at their unamortized cost. Gains and losses realized on these securities are included in the Consolidated Statement of Income concurrently with the gains and losses on the hedged items.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended October 31
(millions of dollars)

29. COMPARISON WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES (cont.)

General allowance for credit risk
In 1998, in accordance with the guidance provided by the Superintendent, the Bank increased its general allowance for credit risk by $300 million and applied this one-time adjustment to retained earnings. This adjustment did not comply with Canadian or U.S. GAAP. In 2001, the Bank increased the portion of its general allowance for credit risk, in accordance with U.S. GAAP, by $203 million. During the first quarter of 2002, following the sale of its asset-based lending operations in the United States, the Bank reversed an amount of $65 million under "Discontinued operations", representing the portion of the general allowance related to its asset-based lending portfolio in the United States. In addition, following an evaluation of the adequacy of the general allowance for credit risk as at January 31, 2002, the allowance was established at $435 million. Since February 1, 2002, the general allowance for credit risk has complied with Canadian and U.S. GAAP. Had the Bank followed U.S. GAAP during the year, it would have had no impact on the Consolidated Statement of Income (2002: $97 million increase in the provision for credit losses, $40 million decrease in income taxes and $57 million decrease in net income). There was no impact on the Consolidated Balance Sheet as at October 31, 2003 (2002: no impact).

Sale of premises
Under Canadian GAAP, the leases related to the head office building were accounted for as a sales-type lease followed by an operating lease as a lessee. Under U.S. GAAP (SFAS No. 98 entitled "Accounting for Leases"), in order to be accounted for as a sales-type lease, for real property, title must be transferred at the end of the lease term; therefore, the two leases must be accounted for as operating leases. Consequently, the building remains on the balance sheet, and the proceeds received are recorded as a liability.

Loan securitization
A new Canadian GAAP standard became effective for loan securitization transactions carried out as of July 1, 2001, substantially harmonizing the Canadian accounting treatment with that required under U.S. GAAP. However, certain differences remain with respect to transactions entered into before July 1, 2001 and the conditions under which special purpose entities ("SPEs") require consolidation. Under Canadian GAAP, SPEs are consolidated only when the Bank is deemed to control these SPEs and retains substantially all the residual risks and rewards of the SPEs. U.S. GAAP requires that SPEs be consolidated unless they receive a substantial investment from an independent third party or their activities are sufficiently limited. Certain SPEs with which the Bank has entered into loan securitization transactions would require consolidation under U.S. GAAP.

Derivative financial instruments
Under Canadian GAAP, derivatives used in sales or trading activities are recorded on the Consolidated Balance Sheet at fair value while other derivatives are recorded at cost. Under the U.S. standard (SFAS No. 133 entitled "Accounting for Derivative Instruments and Hedging Activities" as amended by SFAS No. 138 and SFAS No. 149), the Bank is required to measure all derivatives at fair value and to recognize them on the Consolidated Balance Sheet as an asset or liability. The U.S. standard provides specific guidance regarding the documentation and designation of derivatives in order for the derivatives to be eligible for hedge accounting, the limits of hedging strategies and the measurement of hedge ineffectiveness. Derivatives that cannot be recorded as hedging instruments are recorded at fair value, and changes in fair value are recorded in income. Changes in the fair value of derivatives designated as fair value hedges are recorded in income and are generally offset by changes in the fair value of the hedged items. With respect to derivatives used for cash flow hedge transactions, changes in fair value are recorded as a separate item in the Consolidated Statement of Comprehensive Income until the hedged items are recognized in income. The ineffective portion of hedging relationships is recognized in income on a quarterly basis.

Minimum pension liability
Under U.S. GAAP (SFAS No. 87 entitled "Employers' Accounting for Pensions"), if the accrued benefit obligation, without salary projections, exceeds the fair value of a pension plan's assets, a liability (minimum pension liability) equivalent to the difference must be recorded in the Consolidated Balance Sheet. Recognition of an additional liability is required in the event that the accrued benefit obligation, without salary projections, exceeds the fair value of the pension plan's assets, and net accrued benefit assets are recognized in the Consolidated Balance Sheet. If an additional liability is recognized, an equal amount is recognized as an intangible asset, up to the amount of unrecognized prior service cost, with any excess reported under "Other comprehensive income", net of income taxes.

Goodwill
In 1999, the value of the shares issued by the Bank as part of the acquisition of First Marathon Inc. was based on the market price of the shares over a reasonable period of time before and after the acquisition date, as required by Canadian GAAP in effect before July 1, 2001. Under U.S. GAAP, the value of shares would have been based on the market price of the shares over a reasonable period of time before and after the date the terms of the acquisition were agreed to and announced. Had the Bank followed U.S. GAAP, goodwill and the amount of common shares would have increased.

Variable interest entities
In January 2003, the Bank adopted the new U.S. Interpretation FIN-46 on the consolidation of variable interest entities, which applied immediately to all variable interest entities created after January 31, 2003. Under the Interpretation, the Bank must identify the variable interest entities in which it has an interest, determine whether it is the primary beneficiary and, if such is the case, consolidate those entities. The adoption of this new Interpretation has no material impact on the Bank. For variable interest entities created before February 1, 2003, the provisions of the new Interpretation will apply to the Bank effective October 31, 2004. The Bank is currently assessing the impact of the new Interpretation on entities created before February 1, 2003.

STATISTICAL REVIEW

As at October 31	2003	2002	2001	2000	1999	1998	1997(7)	1996(6)	1995	1994
Balance sheet data										
(millions of dollars)										
Cash resources	**$ 7,047**	$ 6,864	$ 5,832	$ 5,655	$ 3,561	$ 4,852	$ 4,476	$ 3,528	$ 5,174	$ 3,765
Securities	**26,179**	20,118	17,872	16,835	16,932	15,439(5)	10,010	8,414	7,285	6,071
Loans	**42,336**	40,812	44,392	46,739	43,891	45,507(5)	47,259	37,935	33,795	32,226
Customers' liability under acceptances	**3,334**	2,988	3,593	3,640	2,962	2,658	2,273	1,725	1,293	1,255
Premises and equipment and other assets	**3,527**	3,811	4,277	2,958	2,455	2,207	2,217	1,532	1,366	1,457
Total assets	**$82,423**	$ 74,593	$ 75,966	$ 75,827	$ 69,801	$ 70,663	$ 66,235	$ 53,134	$ 48,913	$ 44,774
Deposits	**$51,463**	$ 51,690	$ 51,436	$ 50,473	$ 49,984	$ 48,026	$ 43,270	$ 40,125	$ 40,424	$ 36,850
Other liabilities	**25,347**	17,410	18,767	20,165	15,481	18,976	19,136	9,494	4,895	4,253
Long-term debt										
floating-capital notes	**–**	–	–	–	–	–	–	–	106	113
Subordinated debentures	**1,516**	1,592	1,647	1,361	1,035	966	1,069	1,016	1,177	1,241
Capital stock										
Preferred	**375**	300	492	492	317	317	376	376	376	532
Common	**1,583**	1,639	1,668	1,653	1,641	1,327	1,309	1,268	1,234	1,207
Contributed surplus	**2**	–	–	–	–	–	–	–	–	–
Retained earnings	**2,137**	1,962	1,956	1,683	1,343	1,051	1,075	855	701	578
Total liabilities and shareholders' equity	**$82,423**	$ 74,593	$ 75,966	$ 75,827	$ 69,801	$ 70,663	$ 66,235	$ 53,134	$ 48,913	$ 44,774
Average assets	**$71,671**	$ 69,292	$ 69,197	$ 69,840	$ 65,784	$ 65,873	$ 55,685	$ 49,239	$ 47,582	$ 43,160
Average capital funds (1)	**5,216**	5,249	5,020	4,660	3,512	3,886	3,744	3,511	3,620	3,230
Income statement data										
(millions of dollars)										
Net interest income	**$ 1,324**	$ 1,444	$ 1,338	$ 1,190	$ 1,187	$ 1,209	$ 1,235	$ 1,136	$ 1,170	$ 1,081
Other income	**2,038**	1,584	1,789	1,878	1,232	1,108	1,030	970	712	719
Total revenues	**$ 3,362**	$ 3,028	$ 3,127	$ 3,068	$ 2,419	$ 2,317	$ 2,265	$ 2,106	$ 1,882	$ 1,800
Provision for credit losses	**177**	490	205	184	170	147	280	235	255	275
Operating expenses	**2,259**	2,040	1,989	2,120	1,615	1,535	1,451	1,402	1,219	1,158
Income taxes	**277**	150	278	239	213	239	209	130	146	131
Non-controlling interest	**27**	30	28	26	32	31	16	10	7	9
Income before discontinued operations and goodwill charges	**622**	318	627	499	389	365	309	329	255	227
Discontinued operations	**2**	111	(45)	29	36	24	42	–	–	–
Goodwill charges	**–**	–	19	19	8	73	9	11	10	10
Net income	**$ 624**	$ 429	$ 563	$ 509	$ 417	$ 316	$ 342	$ 318	$ 245	$ 217

STATISTICAL REVIEW (CONT.)

As at October 31	**2003**	2002	2001	2000	1999	1998	1997[7]	1996[6]	1995	1994
Stock data										
Number of common shares (thousands)	**174,620**	182,596	190,331	189,474	188,729	171,616	170,461	167,151	163,963	160,976
Number of common shareholders of record	**27,865**	28,549	29,766	30,795	32,048	32,902	34,433	36,549	39,053	41,974
Income before discontinued operations and goodwill charges per share, basic	**$ 3.37**	$ 2.18	$ 2.88	$ 2.65	$ 2.28	$ 2.12	$ 1.92	$ 1.82	$ 1.32	$ 1.18
Net income per share, basic	**$ 3.37**	$ 2.18	$ 2.78	$ 2.54	$ 2.24	$ 1.69	$ 1.86	$ 1.76	$ 1.26	$ 1.12
Dividend per share	**$ 1.08**	$ 0.93	$ 0.82	$ 0.75	$ 0.70	$ 0.66	$ 0.575	$ 0.49	$ 0.40	$ 0.40
Stock trading range										
High	**$ 41.19**	$ 34.93	$ 31.00	$ 25.25	$ 26.20	$ 31.25	$ 20.30	$ 13.90	$ 11.88	$ 11.63
Low	**$ 29.95**	$ 24.70	$ 23.00	$ 16.40	$ 17.15	$ 20.10	$ 13.20	$ 10.38	$ 8.63	$ 8.25
Close	**$ 40.91**	$ 29.39	$ 24.25	$ 24.95	$ 17.90	$ 23.05	$ 20.15	$ 13.00	$ 11.00	$ 9.38
Book value	**$ 21.32**	$ 19.72	$ 19.04	$ 17.60	$ 15.81	$ 13.86	$ 13.99	$ 12.70	$ 11.88	$ 11.09
Dividends on preferred shares										
Series 5	**–**	–	–	–	–	3.9531	3.3670	4.8235	5.9462	4.4495
Series 7	**–**	–	–	–	–	1.0306	0.8777	1.2576	1.5503	1.1601
Series 8	**–**	–	–	–	–	0.9883	0.8417	1.2059	1.4865	1.1125
Series 10	**–**	–	2.1875	2.1875	2.1875	2.1875	2.1875	2.1875	2.1875	2.1875
Series 11	**–**	0.5000	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000	2.0000
Series 12	**0.8125**	1.6250	1.6250	1.6250	1.6250	1.6250	1.6250	1.6250	1.6250	1.0562
Series 13	**1.6000**	1.6000	1.6000	0.5447	–	–	–	–	–	–
Series 15	**1.1480**	–	–	–	–	–	–	–	–	–
Financial ratios										
Return on common shareholders' equity before goodwill charges	**16.5%**	11.3%	16.0%	16.0%	15.5%	14.6%	14.5%	15.1%	11.5%	11.1%
Return on average assets	**0.87%**	0.62%	0.80%	0.73%	0.62%	0.51%	0.62%	0.64%	0.51%	0.50%
Return on average capital funds	**11.9%**	9.5%	12.5%	12.4%	13.2%	9.3%	10.5%	10.6%	8.3%	7.9%
Capital ratios – BIS										
Tier 1	**9.6%**	9.6%	9.6%	8.7%	7.7%	7.7%	8.1%	6.9%	6.8%	6.9%
Total	**13.4%**	13.6%	13.1%	11.4%	11.0%[4]	10.7%	11.3%	10.2%[2]	10.4%	11.1%
Other information										
Impaired loans (millions of dollars)	**$ 251**	$ 246	$ 591	$ 544	$ 543	$ 547	$ 497	$ 506	$ 611	$ 744
Number of Bank employees[3]										
In Canada	**11,328**	11,287	11,676	11,050	11,744	11,641	11,245	11,022	10,249	10,423
Outside Canada	**132**	155	351	407	431	400	406	380	371	323
National Bank Financial & Co. Inc.	**2,868**	3,147	2,294	2,419	2,489	1,895	1,676	1,425	1,578	1,481
Branches in Canada	**477**	507	525	586	649	646	641	632	629	641
Banking machines	**817**	826	834	802	761	744	738	712	624	551

(1) Average capital funds include common shareholders' equity, redeemable preferred shares and subordinated debentures.

(2) Taking into account the issuance of $150 million in subordinated debentures on November 1, 1996.

(3) The number of employees is provided on a full-time equivalent basis. This basis was changed in 1996.

(4) Taking into account the issuance of US $250 million in subordinated debentures on November 2, 1999.

(5) The securities figures were restated to include mortgage-backed securities held by the Bank. Figures prior to fiscal 1998 have not been restated.

(6) Figures prior to 1996 have not been restated to reflect the fact that gains and losses on securities previously recorded under "Interest income" were reclassified as "Other income" as they could not be obtained through reasonable effort.

(7) Figures prior to 1997 have not been restated to reflect the impact of activities that were discontinued in 2001.

PRINCIPAL SUBSIDIARIES

Name	Principal office address[1]	Voting and participating shares	Investment at cost (millions of dollars)
National Bank Acquisition Holding Inc.	Montreal, Canada	100%	330
National Bank Group Inc.	Montreal, Canada	100%	605
National Bank Financial & Co. Inc.	Montreal, Canada	100%	174
Natcan Insurance Company Limited	Bridgetown, Barbados	100%	1
Natcan Trust Company	Montreal, Canada	100%	55
National Bank Trust Inc.	Montreal, Canada	100%	154
National Bank Life Insurance Company	Montreal, Canada	100%	10
Services financiers Banque Nationale Inc.	Montreal, Canada	100%	–
National Bank Financial Services (Investments) Inc.	Montreal, Canada	100%	–
National Bank Securities Inc.	Montreal, Canada	100%	8
Natcan Investment Management Inc.	Montreal, Canada	69.1%	1
Natcan Acquisition Holdings Inc.	Montreal, Canada	100%	273
National Bank Discount Brokerage Inc.	Montreal, Canada	100%	36
Altamira Investment Services Inc.	Toronto, Canada	100%	263
Innocap Investment Management Inc.	Montreal, Canada	100%	1
National Bank Realty Inc.	Montreal, Canada	100%	6
FMI Acquisition Holding Inc.	Montreal, Canada	100%	25
NBC Financial (U.K.) Ltd.	London, United Kingdom	100%	73
Assurances générales Banque Nationale (Gestion) Inc.	Montreal, Canada	100%	17
National Bank General Insurance Inc.	Montreal, Canada	90%	–
Natcan Holdings International Limited	Nassau, Bahamas	100%	30
National Bank of Canada (International) Limited	Nassau, Bahamas	100%	–
NB Capital Corporation	New York, United States	100%	242
NB Finance Ltd.	Hamilton, Bermuda	100%	175
National Canada Finance LLC	New York, United States	100%	733
NatBC Holding Corporation & Subsidiary	Florida, United States	100%	18
Natbank, National Association	Florida, United States	100%	–
NBC Global Risk Management Inc.	Houston, United States	100%	–
NBC Trade Finance Limited	Hong Kong, China	100%	–

(1) All the subsidiaries are incorporated under the laws of the state or country in which their principal office is located, except for NB Capital Corporation, which is incorporated under the laws of the State of Maryland, U.S.A., and National Canada Finance LLC and NatBC Holding Corporation & Subsidiary, both of which are incorporated under the laws of the State of Delaware, U.S.A.

PRINCIPAL INVESTMENTS IN ENTITIES SUBJECT TO SIGNIFICANT INFLUENCE

			Investment at carrying value
Alter Moneta Corporation	Montreal, Canada	34.9%	16
Alter Moneta Corporation (Delaware)	Montreal, Canada	34.9%	15
Maple Financial Group Inc.	Toronto, Canada	24.8%	94

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SUPPLEMENTARY INFORMATION

DIRECTORS

André Bérard
Chairman of the Board
National Bank of Canada
Île-des-Sœurs, Quebec

Lawrence S. Bloomberg
Advisor
National Bank Financial Inc.
Toronto, Ontario

Pierre Bourgie
President and Chief Executive Officer
Société Financière Bourgie Inc.
Outremont, Quebec

Gérard Coulombe
Chairman of the Board and
Senior Partner
Desjardins Ducharme Stein Monast
Sainte-Marthe, Quebec

François J. Coutu
President and Chief Executive Officer
The Jean Coutu Group (PJC) Inc.
Outremont, Quebec

Bernard Cyr
President
Cyr Holdings Inc.
Moncton, New Brunswick

Shirley A. Dawe
President
Shirley Dawe Associates Inc.
Toronto, Ontario

Nicole Diamond-Gélinas
President and General Manager
Aspasie Inc.
Saint-Barnabé-Nord, Quebec

Jean Douville
Chairman of the Board
UAP Inc.
Bedford, Quebec

Marcel Dutil
Chairman of the Board and
Chief Executive Officer
The Canam Manac Group Inc.
Outremont, Quebec

Jean Gaulin
Corporate Director
San Antonio, Texas, United States

Paul Gobeil
Vice-Chairman of the Board
Métro Inc. and
Chairman of the Board
Export Development Canada
Île-des-Sœurs, Quebec

Suzanne Leclair
President, Chief Executive Officer and
Chairwoman of the Board
Transit Truck Bodies Inc.
Île-des-Sœurs, Quebec

E.A. (Dee) Parkinson-Marcoux
Engineer
Canmore, Alberta

Réal Raymond
President and Chief Executive Officer
National Bank of Canada
Île-des-Sœurs, Quebec

Roseann Runte
President
Old Dominion University
Norfolk, Virginia, United States

Jean Turmel
President – Financial Markets,
Treasury and Investment Bank
National Bank of Canada
Outremont, Quebec

Dennis Wood
Chairman of the Board,
President and Chief Executive Officer
Dennis Wood Holdings Inc.
Magog, Quebec

CORPORATE GOVERNANCE

The Bank believes that it is both essential and in the general interest of its shareholders, clients and employees to create a corporate governance culture aimed not only at compliance with the rules applicable to the Bank, but also the spirit they convey, across the organization. In that regard, the Board, supported by its committees and Management, oversees the implementation of and compliance with sound corporate governance standards and practices. The Management Proxy Circular for the 2004 Annual Meeting of Shareholders describes practices with regard to corporate governance, which incorporate the guidelines of The Toronto Stock Exchange. It also contains a description of the committees of the Board, their mandates and their activities.

RESPONSIBILITIES OF THE BOARD OF DIRECTORS

This year, the Board performed an in-depth review of its mandate in order to clearly define its mission, main functions and expectations regarding Management. With regard to the return on shareholder investment, the Board's mission is to oversee management of the Bank, safeguard its assets, and ensure its viability, profitability, continuity and development. It also ensures sound management by requiring that Management, in particular, implement a program ensuring compliance by the Bank with all applicable regulations. The Board assumes certain functions with regard to strategic planning, risk assessment, evaluating its effectiveness, succession planning for Directors and senior management, and the communication and disclosure of information.

COMPOSITION OF THE BOARD

As at October 31, 2003, the Board was composed of 18 Directors. Through its Conduct Review and Corporate Governance Committee, the Board reviews, from time to time, the impact of its size and composition on its activities in order to maintain a balance between the competencies and experience of Directors that is conducive to supporting the Bank's strategic orientations and future needs. This Committee also administers the selection process for new Directors in order to recruit candidates capable of actively contributing to the conduct of the Bank's business and who have a reputation for integrity and honesty.

INDEPENDENCE OF THE BOARD AND ITS COMMITTEES

The Board designated the Conduct Review and Corporate Governance Committee to ensure its effectiveness and independence. From time to time, the Chair of this Committee chairs Board Meetings as well as in camera sessions held on a regular basis by outside Directors. During the past fiscal year, the Board also created an Ad Hoc Nominating Committee whose principal mandate was to recommend a candidate for the position of Chairman of the Board as of March 2004.

As at October 31, 2003, five Directors were "related" to the Bank in accordance with the definition of "unrelated director" in the guidelines of The Toronto Stock Exchange. On that date, six of the 18 Directors were "affiliated with the Bank" as defined in the *Bank Act*. In both cases, the Bank complies with the provisions of the *Bank Act* and the guidelines of The Toronto Stock Exchange. Moreover, all the committees of the Board are composed of outside Directors. Only one related Director of the Bank sits on the Human Resources Committee and the Ad Hoc Nominating Committee.

INFORMATION

The effective functioning of the Board and its committees depends on the quality of the information that Directors receive through special presentations and education and orientation programs, and regarding the quality of solutions recommended. After each committee meeting, the committee chair reports to all Board Members on its activities. The Directors also have at their disposal a Directors' Handbook which describes their responsibilities and obligations, the organizational structure and the mandates of the Board and its committees. The officers and Directors of the Bank work together and share relevant information enabling them to make informed decisions that are in the best interests of the Bank, its shareholders, clients and partners.

COMMUNICATION

The Board establishes mechanisms to ensure effective communication between the Bank, its shareholders, clients, financial analysts, the media and the public. The Board favours transparency in the communication of information to all shareholders, clients and the public at large. The Bank responds to the requests of shareholders, investors and financial analysts through its Investor Relations Department, Corporate Secretary's Office and National Bank Trust Inc., the Bank's transfer agent and registrar. The Bank's quarterly reports and the related conference calls are broadcast in real time on the Bank's website (www.nbc.ca). Clients with specific concerns or needs can contact their branch or TelNat. If a complaint cannot be resolved through the administrative procedures in effect at the Bank, clients may contact the Bank's Ombudsman.

ETHICAL BEHAVIOUR

The Board ensures that rules of conduct and ethical behaviour are observed, in particular, through the adoption of a Code of Professional Conduct. Directors, officers and employees of the Bank formally declare and annually reiterate their commitment to respect the rules set out in the Code, which includes the following values: to act with honesty and integrity, to respect laws, to treat employees and clients with respect, to protect the confidentiality of information, to avoid conflicts of interest and to respect the Bank.

OFFICERS

EXECUTIVE COMMITTEE

Réal Raymond
President and Chief Executive Officer
Île-des-Sœurs, Quebec

Jean Turmel
President – Financial Markets,
Treasury and Investment Bank
Outremont, Quebec

G.F. Kym Anthony
President and Chief Executive Officer
National Bank Financial
Toronto, Ontario

Patricia Curadeau-Grou
Senior Vice-President
Risk Management
Outremont, Quebec

Gisèle Desrochers
Senior Vice-President
Human Resources and Operations
Île-des-Sœurs, Quebec

Michel Labonté
Senior Vice-President
Finance, Technology &
Corporate Affairs
Île-des-Sœurs, Quebec

Tony Meti
Senior Vice-President
Commercial Banking and International
Kirkland, Quebec

Michel Tremblay
Senior Vice-President
Personal Banking and
Wealth Management
Mont-Royal, Quebec

Louis Vachon
Senior Vice-President
Treasury and Financial Markets
Montreal, Quebec

OFFICERS OF SUBSIDIARIES

Yves G. Breton
President
National Bank Discount Brokerage
Brossard, Quebec

Pierre Desbiens
President and Chief Executive Officer
National Bank Trust and
National Bank Life Insurance
Saint-Lambert, Quebec

Charles Guay
President and Chief Operating Officer
National Bank Securities
Île-des-Sœurs, Quebec

Sam Reda
President and Chief Operating Officer
Natcan Investment Management
Kirkland, Quebec

Greg A. Reed
President and Chief Executive Officer
Altamira
Toronto, Ontario

SENIOR VICE-PRESIDENTS

Pierre Desbiens
Insurance and Trust Services
Saint-Lambert, Quebec

Pierre Dubreuil
Greater Montreal and Southern Quebec
Longueuil, Quebec

Alice Keung
Information Technology
Saint-Laurent, Quebec

Olivier H. Lecat
Internal Audit
Montreal, Quebec

Réjean Lévesque
Northern and Eastern Quebec
Sillery, Quebec

Luc Papineau
Sales and Personal Banking
Montreal, Quebec

Ricardo Pascoe
Capital Markets
Westmount, Quebec

Denis Pellerin
Operational and
Market Risk Management
Brossard, Quebec

Greg A. Reed
Personal Banking and
Wealth Management
Ontario and Western Canada
Toronto, Ontario

OMBUDSMAN

Pierre Desroches
Ombudsman
Montreal, Quebec

VICE-PRESIDENTS

Santo Alborino
Human Resources Operations
Oakville, Ontario

Jean-Luc Alimondo
Europe/Middle East/Africa
Neuilly Plaisance, France

Francine Aubertin
Project Office
Dollard-des-Ormeaux, Quebec

Richard Barriault
Taxation
Montreal, Quebec

Guy Benoît
Ontario and Western Canada
Longueuil, Quebec

Pierre Blais
Government Affairs
Vaudreuil, Quebec

Jean Blouin
Credit and Investment Solutions
Boucherville, Quebec

André Boileau
Lower St. Lawrence
INC. Business Line, Eastern Quebec
Lévis, Quebec

Yves G. Breton
Discount Brokerage
Brossard, Quebec

Michel Brouillette
Quebec City and Eastern Quebec
Quebec City, Quebec

Vincent Butkiewicz
Financial Markets and Derivatives
Westmount, Quebec

OFFICERS (cont.)

Jean-Paul Caron
Corporate Affairs
Mont Saint-Hilaire, Quebec

Gilles Choquet
Specialized Networks – Credit
Longueuil, Quebec

René Collette
Atlantic Canada
Dieppe, New Brunswick

Suzanne Côté
Legal Affairs
Saint-Laurent, Quebec

Jean Dagenais
Chief Accountant
Outremont, Quebec

France David
Treasury Operations
Longueuil, Quebec

Yvan Desrosiers
Natbank
Chicoutimi, Quebec

Lévis Doucet
Montreal
Boucherville, Quebec

Nicole Dumont
INC. Business Solutions
Repentigny, Quebec

Johanne Dupont
Corporate Secretary
Mont-Royal, Quebec

Michel Faubert
Operations Optimization
Lévis, Quebec

Luc Fredette
Credit, Canada
Longueuil, Quebec

Michel Gendron
Montreal/Bank Tower
Brossard, Quebec

Clément Gignac
Chief Economist
Saint-Bruno, Quebec

Marc Godin
Finance and Control
Outremont, Quebec

Rubina Havlin
Electronic Payment Solutions
Pointe-Claire, Quebec

Richard Hébert
South Shore
Boucherville, Quebec

Jacynthe Hotte
Operational Risk
Sainte-Geneviève, Quebec

Lynn Jeanniot
Marketing and Public Affairs
Mont-Royal, Quebec

D. William Kennedy
Special Loans
Toronto, Ontario

Raymond H. Keroack
Laval/North Shore &
Abitibi-Témiscamingue
Saint-Bruno, Quebec

Marc Knuepp
Chief Financial Officer
Altamira
Laval, Quebec

Pierrette Lacroix
Market Risk
Senneville, Quebec

Jean-Pierre Lambert
Montérégie/Eastern Townships
Boucherville, Quebec

Jacques Latendresse
Nassau
New Providence Island, Nassau
Bahamas

Yannik Laurin
West Island
Boisbriand, Quebec

Michelle Leduc
Retail Credit
Montreal, Quebec

Benoît Loranger
Alternative Networks
Laval, Quebec

Benoît Marcotte
Coordination – Wealth Management
Advisory Services
Dollard-des-Ormeaux, Quebec

André Mondor
Montreal
Boucherville, Quebec

Renaud Nadeau
Wealth Management
Montreal, Quebec

Jacques Naud
Laval/North Shore
Laval, Quebec

Martin Ouellet
Treasurer
Montreal, Quebec

Paul-André Paradis
Montreal
Montreal, Quebec

Jacques Piché
International, Cuba, ICO
Mont-Royal, Quebec

Paolo Pizzuto
Sales and Service Strategies
Laval, Quebec

Gérard Proulx
Montérégie and Central Quebec
Brossard, Quebec

Roland Provost
Drummond/Bois-Francs/Mauricie
Boucherville, Quebec

Chantale Reid
Network Support
Montreal, Quebec

Nicole Rondou
Compliance
Saint-Lambert, Quebec

France Roy Maffeï
Human Resources Interventions
Montreal, Quebec

Sylvie Roy
Customer Relations Centres
Verdun, Quebec

Lili J. Shain
National Accounts, Ontario
Toronto, Ontario

Vincent Sofia
Asia
Hong Kong, China

John W. Swendsen
Western Canada and Energy
Calgary, Alberta

Marc Taillon
Quebec City and Eastern Quebec
Sainte-Foy, Quebec

Pierre Therrien
Private Banking, Quebec
Montreal, Quebec

Peter D. Thompson
Outaouais/Northern and
Eastern Ontario
Manotick, Ontario

Jimmy Villeneuve
Organizational Performance,
Premises and Material Resources
Île-des-Sœurs, Quebec

Kathleen Zicat
Laval/Northern and Western Quebec
Montreal, Quebec

PRINCIPAL SUBSIDIARIES AND REPRESENTATIVE OFFICES ABROAD

CANADA

Investment Dealer

National Bank Financial Inc.
1155 Metcalfe, 5th Floor
Montreal, Quebec H3B 4S9

NBCN Clearing Inc.
1010 de La Gauchetière West
16th Floor
Montreal, Quebec H3B 5J2

Portfolio Management

Natcan Investment
Management Inc.
1100 University, 4th Floor
Montreal, Quebec H3B 2G7

Insurance

National Bank Life
Insurance Company
1100 University, 12th Floor
Montreal, Quebec H3B 2G7

National Bank
General Insurance Inc.
1100 University, 11th Floor
Montreal, Quebec H3B 2G7

Trust Services

National Bank Trust Inc.
1100 University, 12th Floor
Montreal, Quebec H3B 2G7

Natcan Trust Company
600 de La Gauchetière West
4th Floor
Montreal, Quebec H3B 4L2

Discount Brokerage and Mutual Fund Dealer

National Bank Securities Inc.
1100 University, 12th Floor
Montreal, Quebec H3B 2G7

National Bank Discount Brokerage Inc.
1100 University, 8th Floor
Montreal, Quebec H3B 2G7

Altamira Financial Services Ltd.
The Exchange Tower
130 King Street West, Suite 900
Toronto, Ontario M5X 1K9

Opus 2 Securities Inc.
40 Holly Street, Suite 301
Toronto, Ontario M4S 3C3

Financial Services

National Bank
Financial Services Inc.
1100 University, 12th Floor
Montreal, Quebec H3B 2G7

UNITED STATES

Natbank, National Association
990 North Federal Highway
Pompano Beach, FL 33064

Putnam Lovell NBF Securities Inc.
65 East 55th Street
New York, NY 10022

Putnam Lovell Capital Partners Inc.
501 Deep Valley Drive, Suite 300
Rolling Hills Estate, CA 90274

NB Capital Corporation
125 West 55th Street
New York, NY 10019

NBC Global Risk Management Inc.
700 Louisiana Street, Suite 3905
Houston, TX 77002

BAHAMAS

National Bank of Canada
(International) Limited
Goodman's Bay Corporate Center
West Bay Street
P.O. Box N-3015
Nassau

UNITED KINGDOM

NBC Financial (U.K.) Ltd.
71 Fenchurch Street, 11th Floor
London EC3M 4HD

SWITZERLAND

NBF International SA
15, rue du Cendrier
Suite 1201
Geneva

CHINA

NBC Trade Finance Limited
7/F Citic Tower
1 Tim Mei Avenue
Central
Hong Kong

OFFICES AND BRANCHES ABROAD

Regional and Representative Offices

Paris
123, avenue des Champs-Élysées
75008 Paris
France

Hong Kong
3903 Jardine House
1 Connaught Place
Central
Hong Kong, China

Branches

71 Fenchurch Street, 11th Floor
London, United Kingdom
EC3M 4HD

125 West 55th Street
22nd Floor
New York, NY 10019
U.S.A.

Goodman's Bay Corporate Center
West Bay Street
P.O. Box N-3015
Nassau, Bahamas

4031 Oakwood
Oakwood Plaza
Hollywood, FL 33020
U.S.A.

990 North Federal Highway
Pompano Beach, FL 33064
U.S.A.

ANNUAL INFORMATION FORM

Distribution Notice
The Annual Information Form must be accompanied by copies of all the documents incorporated into it by reference when it is provided to security holders or other interested parties.

Portions of the Annual Information Form are disclosed in the following documents and are incorporated herein by reference:
- the annual report to shareholders for the fiscal year ended October 31, 2003 ("Annual Report")
- the Management Proxy Circular dated as at January 22, 2004 ("Circular")

Table of Contents

ANNUAL INFORMATION FORM (cont.)

CORPORATE STRUCTURE

Name and Incorporation
National Bank of Canada (the "Bank") is a chartered bank governed by the *Bank Act* (Canada). The Bank's roots date back to 1859 with the founding of the *Banque Nationale* in Quebec City. Its current charter is the result of a series of amalgamations, notably with The Provincial Bank of Canada in 1979, with the Mercantile Bank of Canada in 1985, and with National Bank Leasing Inc., its wholly-owned subsidiary, in 1992. Although no change was made to its statutes, in March 2001, the Bank amended section 4.1 of By-Law I of the General By-Law to reduce the minimum and maximum number of Directors and, in March 2002, it amended section 4.6 of By-Law I to increase the aggregate remuneration which may be paid to its Directors.

GENERAL DEVELOPMENT OF THE BUSINESS

Five-Year History

Fiscal 1998-1999: The Bank acquired First Marathon which it integrated with Lévesque Beaubien Geoffrion, its securities brokerage subsidiary, to form National Bank Financial, a Canada-wide brokerage and investment bank.

Fiscal 1999-2000: Committed to improving the quality of services offered to its various client groups and better positioning itself with respect to the growth in electronic commerce and services, the Bank signed a partnership agreement with a preferred supplier of information technology services.

Fiscal 2000-2001: In keeping with its business model of being a super-regional bank offering such value-added services as investment banking and wealth management to its individual and business clients, the Bank sold its asset-based lending operations in the United States as well as its merchant payment solutions.

Fiscal 2001-2002: The Bank strengthened its position in potentially lucrative markets through major partnership agreements and acquisitions, particularly that of Altamira, a Canadian mutual fund manager and distributor. In addition, the Bank significantly improved the quality of its lending portfolio as evidenced by the level of gross private impaired loans outstanding, which amounted to $479 million as at October 31, 2002 compared to $932 million as at October 31, 2001.

Fiscal 2002-2003: The Bank pursued its strategy to be a super-regional bank in Quebec while being highly selective in choosing its activities outside its core market. It executed this strategy with determination, diligence and discipline as evidenced by the record net income of $624 million for fiscal 2003. The Bank achieved all its financial objectives and even surpassed several. Moreover, shareholders enjoyed an excellent return on their investment, with total shareholder return reaching 43% for the year ended October 31, 2003.

DESCRIPTION OF BUSINESS

Environmental Risk: In order to minimize environmental risk, several years ago the Bank notably implemented a procedure setting out its environmental responsibilities when granting credit and taking possession of assets. To date, the risks involved have not had a material impact on the Bank's operations.

ANNUAL INFORMATION FORM (cont.)

DIRECTORS AND OFFICERS

Directors: Since November 1, 1998, the Directors mentioned on page 126 have held the principal functions described in the "Election of Directors" section of the Circular.

Executive Officers: Since November 1, 1998, the members of senior management mentioned on pages 128 and 129 have held various management, executive or senior executive positions with the Bank, with the exception of: G.F. Kym Anthony who, from 1993 to 1998, was Chair and Chief Executive Officer, TD Securities Inc. and, from 1998 to 1999, was Chief Operating Officer and Executive Vice-President, First Marathon Securities Ltd.; Guy Benoît who, from 1998 to 2003, was Vice-President – Central District, TD Bank Financial Group; Yves G. Breton who, from 1995 to 1998, was Senior Vice-President – Markets and Advisor to the President and Chief Operating Officer, Confédération des Caisses Populaires et d'Économie Desjardins du Québec and, in 1998 was Senior Vice-President and General Manager – Markets, Montreal Exchange; Johanne Dupont who, from 1995 to 2002, was Legal Advisor and Interim General Secretary, Montreal Exchange; Marc Godin who, from 1997 to 2000, was Chief Financial Officer, Western European Operations, Telesystem Ltd., from 2000 to 2001, was Partner, IUGO Venture Inc. and, from 2001 to 2003, was President, Marc Godin & Associés Inc.; Alice Keung who, from 1994 to 1999, was Vice-President – Operations, Interface Asia-Pacific, from 1999 to 2000, was Senior Director, Commercial Business Units, Information Technology, Air Canada and, from 2000 to 2003, was Vice-President – Information Technology and Chief Information Officer, Air Canada; Olivier H. Lecat who, from 1992 to 1997, was Vice-President – Treasury and Investment Banking, Internal Audit Services and, from 1997 to 2001, was Vice-President – Corporate and Investment Banking, Internal Audit Services, Royal Bank; Luc Papineau who, from 1997 to 1998, was Vice-President and Branch Manager, Merrill Lynch Canada Inc.; Michel Tremblay who, from 1993 to 1998, was Senior Vice-President – Investments, ING Canada, and Senior Vice-President and Managing Director, ING Investment Management; Ricardo Pascoe who, from 1996 to 2000, was Managing Partner, Veritas Capital Management LLC, Greenwich, CT, from 2000 to 2002, was Executive General Manager – Americas, Commerzbank Capital Markets Corp., New York and Global Head of Fixed Income Trading and Global Head of Alternative Investment Strategies, Commerzbank Securities and, from 2002 to 2003, was Global Head of Markets, Commerzbank Securities, London, England; Greg A. Reed who, from 1997 to 2002, was Director, McKenzie and, from 2002 to 2003, was Senior Director, McKenzie; and W. David Wood who, from 1993 to 1999, was President – Correspondent Network.

Shareholdings of Directors and Executive Officers: To the best of the Bank's knowledge, the Directors and Executive Officers of the Bank as a group beneficially own less than 1% of the outstanding common shares of the Bank.

Additional Information: The Bank undertakes to provide to any person, upon request, a copy of the Annual Information Form of the Bank, together with a copy of any document incorporated therein by reference, a copy of the annual consolidated financial statements for the year ended October 31, 2003 with the accompanying auditors' report, a copy of any subsequent quarterly financial statements, a copy of the Circular in respect of its most recent Annual Meeting of Shareholders that involved the election of Directors, and a copy of any other document that is incorporated by reference into a preliminary short form prospectus or a short form prospectus whenever the securities of the Bank are part of a distribution. The Circular enclosed with the Notice, dated January 22, 2004, of the Annual Meeting of Shareholders scheduled for March 10, 2004, contains additional information such as the remuneration and indebtedness of Directors and Executive Officers, the principal holders of Bank shares, the stock options awarded and the interests of insiders in material transactions. Copies of these documents may be obtained upon request from the Corporate Secretary's Office of the Bank, 600 de La Gauchetière West, 4th Floor, Montreal, Quebec, Canada H3B 4L2.

November 28, 2003

INFORMATION FOR SHAREHOLDERS

Stock exchange listings
The common shares of the Bank as well as the First Preferred Shares, Series 13 and 15 are listed on The Toronto Stock Exchange.

Issue or Class	Ticker Symbols	Newspaper Abbreviations
Common Shares	NA	Nat Bk or Natl Bk
First Preferred Shares		
Series 13	NA.PR.J	Nat Bk s13 or Natl Bk s13
Series 15	NA.PR.K	Nat Bk s15 or Natl Bk s15

First Preferred Shares, Series 12 (NA.PR.I) were redeemed on May 15, 2003 and First Preferred Shares, Series 15 (NA.PR.K) were issued on January 22, 2003.

Number of shareholders
As at October 31, 2003, there were 27,865 registered holders of common shares listed with the Registrar.

Dividends

1. **Dividend dates in fiscal 2003-2004**
   (Subject to approval by the Board of Directors of the Bank)

Ex-dividend dates	Record dates	Payment dates
Common Shares		
December 23, 2003	December 29, 2003	February 1, 2004
March 23, 2004	March 25, 2004	May 1, 2004
June 24, 2004	June 28, 2004	August 1, 2004
September 21, 2004	September 23, 2004	November 1, 2004
First Preferred Shares, Series 13 and 15		
January 7, 2004	January 9, 2004	February 15, 2004
April 7, 2004	April 12, 2004	May 15, 2004
July 7, 2004	July 9, 2004	August 15, 2004
October 6, 2004	October 8, 2004	November 15, 2004

2. **Dividends declared in fiscal 2002-2003**
   Common Shares

Ex-dividend dates	Record dates	Payment dates	Dividend per share
December 23, 2002	December 26, 2002	February 1, 2003	$0.26
March 25, 2003	March 27, 2003	May 1, 2003	$0.26
June 23, 2003	June 26, 2003	August 1, 2003	$0.28
September 23, 2003	September 25, 2003	November 1, 2003	$0.28

First Preferred Shares, Series 12, 13 and 15

Ex-dividend dates	Record dates	Payment dates	Dividend per share		
			Series 12	Series 13	Series 15
January 8, 2003	January 10, 2003	February 15, 2003	$0.40625	$0.40	N/A
April 9, 2003	April 11, 2003	May 15, 2003	$0.40625	$0.40	$0.416712
July 9, 2003	July 11, 2003	August 15, 2003	N/A	$0.40	$0.365625
October 8, 2003	October 10, 2003	November 15, 2003	N/A	$0.40	$0.365625

3. **Dividend Reinvestment and Share Purchase Plan**
   Under the Dividend Reinvestment and Share Purchase Plan, holders of common shares or preferred shares of the Bank may invest in common shares of the Bank without paying a commission or administration fee.

   Participants in the Plan may acquire shares by reinvesting cash dividends paid on shares held by them or by making optional cash payments of a minimum of $500 per cash payment, up to $5,000 per quarter.

   For additional information, contact the Registrar, National Bank Trust Inc., at (514) 871-7171 or 1-800-341-1419.

4. **Direct deposit service**
   Shareholders may elect to have their dividends deposited by electronic funds transfer directly to their bank account at any financial institution that is a member of the Canadian Payments Association. To do so, they must send a written request to the Transfer Agent, National Bank Trust Inc.

Quarterly report publication dates in fiscal 2003-2004

First quarter	February 26, 2004
Second quarter	May 27, 2004
Third quarter	August 26, 2004
Fourth quarter	December 2, 2004

HEAD OFFICE

National Bank of Canada
National Bank Tower
600 de La Gauchetière West
Montreal, Quebec H3B 4L2
Telephone: (514) 394-5000
Telex: 0525181
(Nabacan Montreal)
www.nbc.ca

TRANSFER AGENT AND REGISTRAR

For information about stock transfers, address changes, dividends, lost stock certificates, tax forms and estate transfers, shareholders are requested to contact the Transfer Agent, National Bank Trust Inc., at the address or telephone numbers below.

National Bank Trust Inc.
Share Ownership Management
1100 University, 9th Floor
Montreal, Quebec H3B 2G7
Telephone: (514) 871-7171
1-800-341-1419
Fax: (514) 871-7442

For any correspondence:
National Bank Trust Inc.
Share Ownership Management
P.O. Box 888, Station B
Montreal, Quebec H3B 9Z9

Other shareholder inquiries can be addressed to:
Investor Relations
National Bank of Canada
600 de La Gauchetière West, 7th Floor
Montreal, Quebec H3B 4L2
Telephone: (514) 394-0296
Fax: (514) 394-6196

E-mail: investorrelations@nbc.ca
Website: www.nbc.ca/investorrelations

ANNUAL MEETING

The Annual Meeting of Holders of Common Shares of the Bank will be held on Wednesday, March 10, 2004, at 9:30 a.m. EST, at the Fairmont The Queen Elizabeth Hotel, 900 René-Lévesque West, Montreal, Quebec, Canada.

PUBLIC ACCOUNTABILITY STATEMENT

National Bank of Canada will publish its 2003 Social Responsibility Report in March 2004. The document will be available on its website at www.nbc.ca.

NATIONAL
BANK
OF CANADA

NATIONAL BANK OF CANADA IS AN INTEGRATED GROUP THAT PROVIDES COMPREHENSIVE FINANCIAL SERVICES TO CONSUMERS, SMALL AND MEDIUM-SIZED ENTERPRISES AND LARGE CORPORATIONS IN ITS CORE MARKET, WHILE OFFERING SPECIALIZED SERVICES TO ITS CLIENTS ELSEWHERE IN THE WORLD.

The Bank focusses on fully meeting its clients' expectations and building lasting relationships based on trust. In concrete terms, this translates into personalized services and specialized savings, investment, financing and payment products that the Bank makes available through an extensive network of branches and e-commerce channels.

National Bank's operations are divided into three major lines of business: Personal and Commercial, Wealth Management and Financial Markets.

Personal and Commercial
The Personal and Commercial segment is, in many ways, the Bank's most important line of business since it is responsible for the Bank's traditional activities and accounts for the largest share of employees, revenues, earnings and assets.

The mission of the Personal Banking subsegment is to offer its clients outstanding transaction, lending, credit card, insurance and investment solutions that help them to achieve their financial goals.

The Commercial Banking subsegment has the mission of offering businesses of all sizes and in all sectors the specialized products and services they need to run their operations successfully. National Bank is known as the bank most committed to the small and medium-sized enterprise market, a reputation it is proud of and intends to maintain.

Wealth Management
At National Bank, clients can count on full-service and discount brokerage services, trust services, access to professionals in all our Canadian branches, a family of more than 100 mutual funds as well as wealth management and private banking services.

Full-service brokerage services are provided by Individual Investor Services of National Bank Financial and are available across Canada through a network of 96 branches and a complement of some 800 investment advisors.

Financial Markets
The Financial Markets segment oversees all the brokerage and financing services which the Bank and National Bank Financial offer corporate and institutional clients, as well as the investment and trading operations carried out on the Bank's own behalf.

National Bank in figures

as at October 31, 2003

• Number of employees	**16,935**
• Number of branches	**477**
• Number of banking machines	**817**
• Number of individual clients	**2,550,000**
• Number of business clients	**156,000**
• Assets	**$82.4 billion**
• Assets under management or administration	**$155.3 billion**
• Common share price at closing (TSX: NA.T)	**$40.91**
• Number of shares issued and outstanding	**174,619,903**
• Stock market capitalization	**$7.1 billion**

Milestones in the history of National Bank

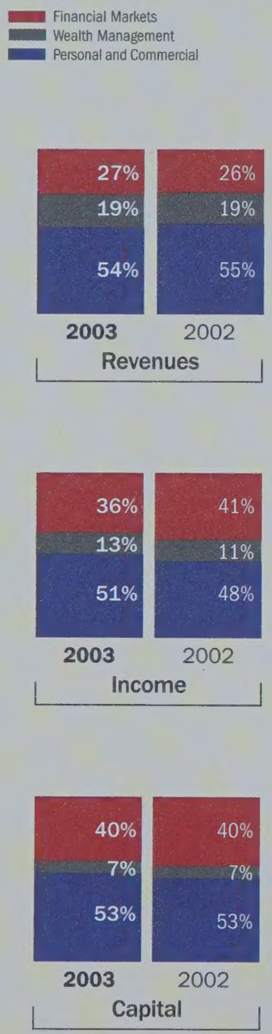
1859	Incorporation of *Banque Nationale* in Quebec City
1924	Merger of *Banque Nationale* and *Banque d'Hochelaga* to form Bank Canadian National (BCN)
1979	Merger of Bank Canadian National and The Provincial Bank of Canada to form National Bank of Canada
1985	Acquisition of The Mercantile Bank of Canada
1987	Creation of National Bank Securities Inc. and InvesTel discount brokerage service
1988	Acquisition of brokerage firm Lévesque Beaubien
1989	Acquisition of brokerage firm Geoffrion Leclerc
1993	Acquisition of General Trust of Canada
1995	Creation of National Bank Life Insurance Company
1996	Acquisition of Family Trust Corporation and The Municipal Savings and Loan Corporation
1996	Creation of National Bank Financial Services Inc.
1999	Acquisition of Toronto-based brokerage firm First Marathon and merger with Lévesque Beaubien Geoffrion to form National Bank Financial
1999	Creation of National Bank General Insurance
1999	Creation of National Bank Discount Brokerage
2002	Acquisition of U.S.-based investment bank Putnam Lovell Group Inc.
2002	Acquisition of Toronto-based mutual fund firm Altamira

▶ FINANCIAL DATA

NATIONAL BANK OF CANADA

Year ended October 31
(taxable equivalent basis)
(millions of dollars)

BUSINESS MIX (1)



(1) *Excluding the "Other" heading*

Head Office

National Bank of Canada
National Bank Tower
600 de La Gauchetière West, 7th Floor
Montreal, Quebec H3B 4L2

Internet: www.nbc.ca/investorrelations

FINANCIAL PERFORMANCE

	2003	2002
Total revenues	**3,459**	3,114
Net income	**624**	429
Earnings per share *(dollars)*	**3.37**	2.18
ROE	**16.5%**	11.3%
Efficiency ratio	**65.3%**	65.5%
Tier 1 capital ratio	**9.6%**	9.6%

TOTAL REVENUES – PERSONAL AND COMMERCIAL

	2003	2002	Change %
Retail	**865**	844	2
Credit cards	**223**	198	13
Insurance	**93**	78	19
Commercial and small businesses	**660**	629	5
Energy and real estate	**36**	33	9
Total	**1,877**	1,782	5

TOTAL REVENUES – WEALTH MANAGEMENT

	2003	2002	Change %
Retail brokerage	**445**	444	–
Portfolio management	**36**	33	9
Trust services	**52**	50	4
Mutual funds	**105**	60	75
Other	**20**	24	(17)
Total	**658**	611	8

TOTAL REVENUES – FINANCIAL MARKETS

	2003	2002	Change %
Institutional brokerage	**563**	553	2
Treasury	**368**	276	33
Total	**931**	829	12

OBJECTIVES AND RESULTS

	2003 objectives	**2003 results**	2004 objectives
Growth in earnings per share (1)	5% – 10%	**21%**	5% – 10%
Return on common shareholders' equity	14% – 16%	**16.5%**	15% – 17%
Tier 1 capital ratio	8.75% – 9.50%	**9.6%**	8.75% – 9.50%
Dividend payout ratio	30% – 40%	**32%**	35% – 45%

(1) *Excluding an impairment charge for an investment*

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

From time to time, National Bank of Canada makes written and oral forward-looking statements, included in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders, in press releases and in other communications. All such statements are made pursuant to the "safe harbor" provisions of the United States *Private Securities Litigation Reform Act of 1995*. These forward-looking statements include, among others, statements with respect to the economy, market changes, the achievement of strategic objectives, certain risks as well as statements with respect to our beliefs, plans, expectations, anticipations, estimates and intentions. These forward-looking statements are typically identified by the words "may," "could," "should," "would," "suspect," "outlook," "believe," "anticipate," "estimate," "expect," "intend," "plan," and words and expressions of similar import.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Bank's control, which include, but are not limited to, changes in Canadian and/or global economic and financial conditions (particularly fluctuations in interest rates, currencies and other financial instruments), liquidity, market trends, regulatory developments and competition in geographic areas where the Bank operates, technological changes, consolidation in the Canadian financial services sector, the possible impact on our businesses of international conflicts and other developments including those relating to the war on terrorism and the Bank's anticipation of and success in managing the risks implied by the foregoing.

The Bank cautions that the foregoing list of important factors is not exhaustive. Investors and others who base themselves on the Bank's forward-looking statements should carefully consider the above factors as well as the uncertainties they represent and the risk they entail. The Bank therefore cautions readers not to place undue reliance on these forward-looking statements. The Bank does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Bank.

This Annual Report is published by the Public Relations Department, National Bank of Canada.

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Pour obtenir un exemplaire de la version française du rapport annuel, veuillez vous adresser à :

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NATIONAL
BANK
OF CANADA